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## Growthpoint launches CMBS programme

24 Nov 2005 - Inet Bridge -

### Intro

Growthpoint Properties has launched its uniquely structured R5bn commercial mortgage backed securitisation programme

Growthpoint Properties, the property company with property assets exceeding R9 billion, on Wednesday successfully launched its uniquely structured R5-billion commercial mortgage backed securitisation (CMBS) programme.

The initial issue on the Bond Exchange of South Africa of five-year floating-rate notes of R805 million is the largest commercial property securitisation issue placed in South Africa to date. The notes are linked to the three-month JIBAR (Johannesburg Inter Bank Agreed Rate).

The issue is secured by 36 prime investment properties across South Africa valued at R1.34 billion with a total gross lettable area of 259,371m<sup>2</sup>.

"The majority of our securitisation bonds were rated AAA.zaf by Fitch Ratings, and achieved a credit margin of 0.34% over three-month JIBAR while the transaction achieved a weighted average credit margin of only 0.47% over three-month JIBAR," says Growthpoint Properties Limited CEO Norbert Sasse.

Fifteen investors bid for the securitised bonds, resulting in significant demand and record low pricing. The refinancing of the securitised portion of Growthpoint's debt has consequently reduced the funding rate by over 1.15% per annum.

"Securitisation will benefit Growthpoint's linked unitholders with increased distributions. Further benefits include the lowered average cost of borrowings, diversification of borrowing sources and the increased competitive advantage of Growthpoint to make value-enhancing acquisitions," explains Sasse.

"Tapping into capital markets through securitisation will be central to Growthpoint's future funding and will result in even further financial benefits as the required structure has already been put in place for the initial issue by the Investec Debt Capital Markets team, lead arranger and manager of Growthpoint's securitisation," says Sasse.

Richard Wainwright, head of treasury and specialised finance at Investec Bank (INL), points out that "there is currently in excess of \$3 trillion securitised paper in issue worldwide, of which over \$500 billion is secured by commercial property. As with international markets, there is a growing trend towards securitisation funding in South Africa, and Investec actively supports this trend."

The primarily AAA.zaf bond rating was achieved, in large part, due to the unique low-risk structure of Growthpoint's securitisation special purpose vehicle (SPV).

The securitised portfolio has been successfully ring-fenced into a trust, Growthpoint Securitisation Warehouse Trust, which was registered for the sole purpose of holding properties for its securitisation programme.

"Growthpoint Securitisation Warehouse Trust has been structured in such a way that Growthpoint will

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provide all operational and strategic management services to the trust. Growthpoint, which is managed by Investec Property Group, will also effectively hold the trust's property ownership powers," explains Sasse.

The trust also provides Growthpoint with "transparency" for tax purposes, as all amounts accruing to the trust are deemed to accrue to Growthpoint as the sole vested income and capital beneficiary. The properties held by the trust are ring-fenced, insolvency remote and carry no operational risk of the holding company, which is a necessary requirement for successful securitisation.

*I-Net Bridge*

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## Growthpoint Note Issuer Company (Proprietary) Limited - Series 3







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### Deal Research

### Related Research

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Report Type	Date	Title
 Performance Overview	23 APR 2008	Growthpoint Note Issuer Company (Proprietary) Limited - Series 3
 Performance Overview	22 AUG 2007	Growthpoint Note Issuer Company (Proprietary)
 Rating Action	3 AUG 2007	Moody's applies refined national scale rating methodology to South African CMBS transactions
 Rating Action	10 NOV 2006	Moody's Assigns Definitive South African National Scale Ratings to CMBS Notes issued by Growthpoint Note Issuer Company (Proprietary) Limited - Series 3
 Rating Action	13 OCT 2006	Moody's Assigns Provisional South African National Scale Ratings to CMBS Notes issued by Growthpoint Note Issuer Company (Proprietary) Limited - Series 3
 Pre-Sale Report	13 OCT 2006	Growthpoint Note Issuer Company (Proprietary) Limited - Series 3

### Deal Details

**Collateral Type:** CMBS - Single Borrower  
**Closing Date:** 10 NOV 2006  
**Total Deal Size:** ZAR 1566.00 M  
**Tax Election:** N/A  
**Pay Frequency:** Quarterly  
**Structure:** Sequential

**Primary Servicer:** Investec Property Group  
**Master Servicer:**  
**Special Servicer:**  
**Originators:** Growthpoint Properties Limited  
**Trustee(s):**  
**Underwriters:**  
**Ticker:**

### Analyst Information




**Analyst:** Oliver Moldenhauer  
**Backup Analyst:** Viola Karoly  
**Managing Director:** Daniel Kolter  
**Rating Group:** Structured Finance

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### Current Rating List

3 records

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ID	Rating Description	Curr	Rating	Rating Date	Rating Action	Watch Status
 Tranche: Class A1 Notes due 1 November 2011						
ISN:ZAG000034075	PASS-THRU CTFS	ZAR	Aaa	3 AUG 2007	Assign	Not on watch
	PASS-THRU CTFS	ZAR	Aaa.za	10 NOV 2006	Assign	Not on watch
 Tranche: Class B1 Notes due 1 November 2011						
ISN:ZAG000034083	PASS-THRU CTFS	ZAR	Aa3	3 AUG 2007	Assign	Not on watch
	PASS-THRU CTFS	ZAR	Aa1.za	3 AUG 2007	Upgrade	Not on watch
 Tranche: Class C1 Notes due 1 November 2011						
	PASS-THRU CTFS	ZAR	Baa2	3 AUG 2007	Assign	Not on watch



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## Growthpoint

By Leon Allison

**Growthpoint has once** again lived up to its name in the past year, growing its market capitalisation from more than R8bn to nearly R15bn - close to 50% more than the second-largest property fund, ApexHi's R10bn.

Given its size and liquidity, it is likely to benefit most from foreign investors looking to invest in SA listed property.

There has been increasing activity on this front, and Growthpoint's foreign shareholding has increased in the past six months from less than 2% to nearer 5%. It is quite possible that this percentage could double again to 10% in the next 12 months.

The company will undoubtedly be among the first to convert from its current structure as a property loan stock company to a real estate investment trust (Reit) - the American form of listed property fund.

There is little difference between the two types, but being exactly like a Reit and using its terminology will give Growthpoint access to investors around the world who will be able to compare it with Reits from Finland to Brazil and India.

Growthpoint has lived up to its name in recent years, growing aggressively through acquisition. In the past year, it has bedded down the industrial portfolio of Metboard, as well as acquiring the R1,4bn Tresso 2 portfolio at an attractive yield of 9%.

In addition, the fund is in the process of acquiring 100% of Paramount Property Fund, which will increase Growthpoint's exposure to Cape Town from 15% to 20%. Growthpoint's sectoral exposures will then change marginally to 39% retail, 39% office and 22% industrial.

Offices are expected to show a much improved performance in the medium term, coming off a low base, while industrial property is expected to continue performing strongly. The growth in retail rents is likely to slow marginally.

Given the size and liquidity of Growthpoint's balance sheet, it has benefited from the issuance of four tranches of low-cost funding worth R4,3bn under its Commercial Mortgage Backed Securitisation (CMBS) programme. The fund continues to enjoy interest savings resulting from this programme.

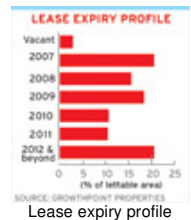
Growthpoint is managed by an external management company, Investec Property Group (IPG). There is a risk of a potential conflict of interest between shareholders and the management company, particularly as IPG is an active property developer which sells its products to listed funds and institutions for profit. But this risk is reduced because Investec (asset management and employee benefits) is the largest shareholder at 13,1%.

Last year, a black economic empowerment consortium acquired a 14,2% interest in Growthpoint without diluting existing unit holders. This transaction has made Growthpoint one of the most empowered of the larger listed property funds. This has now been diluted to 10,6% as Growthpoint has continued its headlong absorption of properties, which is still significant given the fund's growth and size.

**Info Graphics**



Norbert Sasse



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Shareholder's name	% Share held
Investec	13,1
Old Mutual	11,6
BEE Consortium	10,6
Stanlib	7,9
PIC	5,1

Top five shareholders

CEO Norbert Sasse has set his sights on Growthpoint being a classic large listed property fund, providing investors with steady, predictably growing payouts over the long term. This is what the large investors want and as Growthpoint moves into the Alsi 100, and perhaps eventually 40, it will be rerated, giving current shareholders an extra boost to their total returns.

Sasse has convinced shareholders of his ability and commitment to his fund and won the press over with his accessibility, openness and candour.

There is also depth of management and entrepreneurial skills in IPG under chairman Sam Hackner and MD Sam Leon. But management will come under increasing pressure from investors to become internal.

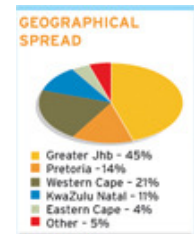
Growthpoint is likely to grow distributions by an average 11,5% a year in the next two years, which is at least in line if not marginally better than the average expected for the larger funds in the sector.

In spite of a 40% increase in net asset value per share in the past year, valuations on Growthpoint's mainly A-grade portfolio look attractive compared with replacement cost.

The average valuation of the retail portfolio is R8 440/m<sup>2</sup> with net rents of R65/m<sup>2</sup>, compared with replacement values of R14 000/m<sup>2</sup>, increasing by about 15%/ year, and net rent of R100/m<sup>2</sup>. The industrial portfolio is valued at R1 820/m<sup>2</sup> with net rent of R16/m<sup>2</sup>, compared with new builds at R3 000-R4 000/m<sup>2</sup> at rents of R30-R35/m<sup>2</sup>. These large value gaps should underpin existing building valuations and rents.

Important properties owned or part-owned include Brooklyn Mall, The Kolonnade, Northgate, La Lucia Mall, Waterfall Mall (Rustenburg) and the Investec buildings in Sandton and Cape Town.

Growthpoint should be a core holding in any listed property portfolio.



SOURCE: GROWTHPOINT PROPERTIES  
Geographical & sectoral spread

Growthpoint Properties



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