



Publication		
BUSINESS DAY		
Page	Date	AVE (ZAR)
10	Thurs 19 July 2018	23086.57



Vukile to increase Spain investment

● *Four shopping centres to be acquired by subsidiary*

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Vukile Property Fund's CEO, Laurence Rapp, said the diversified real estate group would more than double its exposure to Spain within a few weeks, further cementing its position as the only South African property company invested in Europe's fourth-largest economy.

Vukile's Spanish portfolio would be worth €870m when a deal involving its Spanish subsidiary, Castellana, was completed, he said on Wednesday.

Vukile is investing aggressively in the Spanish real estate market, which is recovering following the 2008-09 recession and benefiting from strong tourism growth. Tourism has accounted for a quarter of jobs created in the country since 2013, according to its National Statistics Institute.

Spain's economy grew 3.1% in 2017.

In terms of the deal, Vukile's lead investment partner in Spain, Lee Morze, created a separate investment property company to acquire four shopping centres from European retail asset owner Unibail-Rodamco-Westfield for €460m.

Vukile's 98% subsidiary, Castellana, would acquire the assets after it has listed on the Alternative Equity Market of the Spanish Stock Exchange next

VUKILE

Share price, daily close (cents)



Graphic: DOROTHY KGOSI Source: IRESS

week. As the listing process had precluded it from being party to acquisitions, it had to list first before it bought the assets.

Rapp said he had chosen to go into Spain because of a lack of opportunities in SA as well as a need to diversify against investment risk.

Numerous South African property companies are struggling to find suitably priced asset buying opportunities in SA and are not raising much capital locally. Only R7.5bn has been raised by South African listed property groups in 2018 compared with R47.4bn in 2017.

Vukile took the plunge into Spain in 2017 and quickly built a portfolio worth nearly €390m before this latest acquisition.

"Following this deal Vukile's offshore exposure will be 47%

of assets, of which 43% will be in Spain and 4% in the UK," Rapp said.

The company's total portfolio across SA, Spain, the UK and Namibia would then be worth about R29bn.

Rapp said the Spanish portfolio that would be acquired was a strong fit for Castellana and, in turn, Vukile.

"This is an excellent-quality portfolio, one of the best we have seen in the market so far. At a yield of 5.9% it is attractive and accretive to Vukile, representing a cash-on-cash yield of 8.1% in its first year," he said.

Jay Padayatchi, a director at Meago Asset Management, said Vukile would in time need to show the new portfolio to fund managers but it did have a track record of buying well in Spain.

He said Unibail-Rodamco-Westfield had to get rid of some of its higher-quality assets following its recent merger. The group, which owns more than €60bn in property, was rationalising its portfolio.

"With good national and international retailer exposure, a decent lease expiry profile and low levels of vacancies, at the face of it, the assets look like they would not necessarily have been sold by Unibail were it not for its recent corporate activity leading to a slight refocus of its property strategy," he said.

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