



Vukile's Spain portfolio praised

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COMMERCIAL PROPERTY

Analysts do about-turn over Vukile's 2017 foray in Spain

Alistair Anderson

Analysts who were sceptical about the quality of Vukile Property Fund's newly acquired Spanish portfolio two years ago, are now praising the real estate investment trust for its decision to focus its offshore expansion there.

Vukile is on track to build a portfolio valued at €1.5bn in Spain, the second-most visited country in the world. It will then separately list this business. The group's property portfolio in Spain is already valued at more than €900m.

When it first invested in the country in July 2017, buying a portfolio of nine newly built retail parks via its 98.3% holding in Castellana Properties Socimi for €193m, there were concerns it would overpay for assets that were not in its backyard.

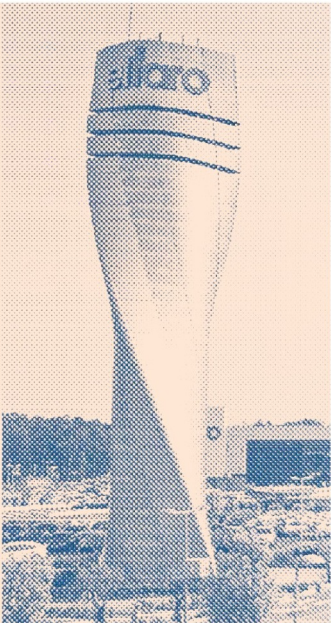
Some investors said a number of assets were weak and that Vukile was buying assets which European landlords were trying to flog. Chief investment officer at Reitway Global Garreth Elston said in 2017, while he was working for Golden Section Capital, that even though Vukile had purchased "a solid portfolio of Spanish assets in diversified and economically stable areas" it had paid a premium.

Spanish commercial property prices were rising steeply after the 2008/2019 global crisis and property crash in Spain.

"The deal also underscores the rapidly increasing prices in Spanish real estate. For example, six of the properties in this deal were bought by Redevco Iberian Ventures in late April 2016 for €95m, and the same properties sold to Vukile just over 14 months later for €113.5m, a 19.5% rise," Elston said at the time.

He said other SA funds which were attracted to a recovering Spanish commercial property market risked overpaying for assets. But at the weekend Elston said that Vukile looked like it had done good work in Spain so far.

"The country's most attrac-



tive opportunities are concentrated in the key Spanish markets of Madrid and Barcelona, the resilience of secondary markets is not as certain. The economy has shown strong and sustained growth post the Global Financial Crisis, but there are still a few concerning indicators, and youth unemployment remains worryingly high," he said.

"Vukile's recent purchases appear to have been made at favourable levels, but future growth will likely require the company to keep acquiring large, stable centres in primary markets. We remain cautious on secondary Spanish cities, but thus far Vukile's Spanish strategy looks sound," he said.

Vukile was the first SA property fund to make a play in Spain and remains the only one so far. After the initial retail park investment, two more retail parks, two offices and six shopping centres previously owned by Unibail Rodamco Westfield have been acquired.

Vukile's retail portfolio in Spain is now worth more than €900m (R14.6bn) and makes up about 45% of the group's total assets of R32.3bn.

Head of listed property funds at Stanlib Keillen Ndlovu said the assets bought after the initial

investment represent a large step-up. "Vukile bought assets sold by a well-respected mall operator, that is Unibail Rodamco Westfield. The fact that they don't fit into Unibail's strategy anymore doesn't mean that they are weak assets. In fact, the malls are much better than Vukile's initial portfolio of retail parks," Ndlovu said.

Vukile CEO Laurence Rapp said Spain represents "a large part of Vukile's future" which is very different from where the fund was a few years ago. In the mid-2010s SA listed property funds were looking to shift some capital out of the country given the weak economic growth and political scandals and uncertainty at home.

The likes of Redefine Properties' founder, Marc Wainer, was scouting for deals in Europe. SA investor Lee Morze eventually contacted Wainer with a potential deal in Spain. But Wainer passed on the deal, opting to invest in Poland instead.

Morze's next stop was Vukile. The company acquired Castellana Properties, and committed to Spain as its main offshore market. Rapp became chair of Castellana, with CEO Alfonso Brunet heading the company's management team. Morze is a

director of the company.

A number of analysts say that initial concerns that some of the assets bought in 2017 were of an insufficient quality were valid but Castellana's team had upgraded them soon after.

Liliane Barnard, who heads Metope said the management team used "asset management initiatives to unlock higher rentals and increase value in the properties concerned".

Fund manager and head of property at Momentum, Nesi Chetty, said Vukile's Spanish strategy is two-pronged, which allows it to profit in two ways.

"The Vukile investment into Castellana can best be described as two opportunities. The initial portfolios that they bought were essentially retail parks where Castellana with some asset management and particular strong letting can greatly improve the net operating income growth," Chetty said.

"The second acquisition in Spain is high quality shopping centres with very strong anchor tenants," he said.

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● Castellana hosted Business Day and several fund managers and investment bankers earlier in March.