

Growthpoint's Romanian foray 'too small'

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Real estate group Growthpoint Properties' first foray into Eastern Europe has received a mixed reaction from one South African fund manager who is concerned its investment in Romania is too small to move the fund's needle.



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More than 10 South African property companies have already invested in Eastern Europe in the past two years but many have made larger investments than the €186m (R2.7bn) Growthpoint is spending on a 26.9% stake in Globalworth Real Estate Investment.

The investment in the Romanian office owner has come long after the likes of New Europe Property Investments bought into shopping centres in the country and some eight months after Growthpoint's rival, Redefine Properties, invested in Polish retail and offices.

There have been questions about whether Growthpoint's initial exposure to Romania will be too small to deliver meaningful returns early on for the R71bn-valued company.

Portfolio manager at Alternative Real Estate Capital Management, Garreth Elston, said his team were "neutral on the deal" until they knew more details.

"We are not sure that the deal has the size and scope to significantly move the needle for a company of Growthpoint's size over the short to medium term.

"In addition, we are not completely convinced that Romania is the best investment choice in Central and Eastern Europe at the moment," he said.

Romania's government had been wracked by political scandals in recent times, he said.

Corruption was also an issue, with Romania being ranked by Transparency International's Corruption Index at 58 globally, which is only three ranks higher than SA.

Elston said Poland, the other favoured destination for South African property investors, was ranked 30th. "So, politically, Romania does not really offer Growthpoint much more stability nor transparency than SA does," he said.

However, in economic terms, Romania offered several advantages. "GDP growth at 4.4% is encouraging, GDP per capita has been growing and unemployment is low at 5.8%," he said.

Globalworth, founded by entrepreneur Ioannis Papalekas, has operated for more than 15 years in Romania.

Catalyst Fund Managers investment manager Paul Duncan said the deal looked reasonable for Growthpoint and it was difficult for it to find large, well-priced deals.

"It does not look like they are overpaying for the equity stake. They are acquiring a modestly geared fund at a discount to net asset value with a platform. Management are aligned via a material equity ownership.

"We don't believe there is much cap rate compression on the existing portfolio, but there does appear to be the ability to reduce interest costs. This is a very similar type of deal to what they did successfully in Australia. Growthpoint are so big now that they can only do incremental bulk-ons to grow earnings and quality," he said.

Growthpoint anticipates the yield on Globalworth equity to be about 6%. This would be fully funded with debt and cross-currency swaps at an approximate all-in rate of 3%.

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