Growthpoint's dividend decreases amid strong operational performance in 2024

Growthpoint Properties reported robust operational results across its local and international investments for the six-month period ended 31 December 2023, with a stellar performance from the V&A Waterfront and its South African portfolio showing stable and steadily improving property metrics.

Source: Supplied. Norbert Sasse, group chief executive officer of Growthpoint Properties.

The solid operational performances produced by the underlying portfolios of Growthpoint's various investments were, however, overshadowed by higher interest rates globally, which presented significant downside given their impact on property values, equity and debt markets, and capitalisation and discount rates, affecting the financial performance of Growthpoint's direct and indirect investments.

Growthpoint reported total property assets down 1.1% during the period to R177.9bn.

Reflecting the sound operational performance on one hand, and the impact of high interest rates locally and internationally on the other, Growthpoint will distribute R2bn, representing a half-year dividend per share (DPS) of 58.8cps, 8.6% down from HY23, based on a payout ratio of 82.5% of distributable income of R2.4bn.

It retained R422.5m before tax to fund capital expenditure and developments together with the proceeds from property disposals.

Given the impact of high interest rates across our local and international businesses, which will be greater in the second half of FY24, Growthpoint expects DIPS to decline by 10% to 12% for FY24. This is an improvement on the original guidance, which was for DIPS to decline 10% to 15% for FY24.

Norbert Sasse, group chief executive officer of Growthpoint Properties, comments, “Growthpoint did well to deliver strong, operational outcomes and ongoing strategic progress.

"Despite unprecedented challenges in our markets, including low domestic growth, volatile global markets caused by interest rates that remain higher for longer and rising geopolitical tensions, our results continue to reflect the resilience and diversification of our business and our quality earnings.”

Growthpoint Properties issues R1bn 10-year bond
Catchwords 12 Feb 2024

Its group SA Reit loan-to-value (LTV) ratio was 42.0%, with an interest cover ratio (ICR) of 2.5 times. With good access to funding, it secured several longer-dated bonds through private placements with the International Finance Corporation (IFC) and other debt investors at attractive margins during the period.

Growthpoint has good liquidity with R1bn cash on its SA balance sheet and R6.2bn in SA unutilised committed debt facilities. 76.7% of its debt book is fixed for an average term of two years at a rate of 9.6% or 7.1%.

International expansion highlights

Growthpoint continued investing internationally with 43.5% of property assets by book value located offshore and 32.5% of DIPS earned offshore for HY24. Foreign currency income increased 4.3% to R796m (HY23: R763.0m).

Growthpoint owns 57 office and industrial properties in Australia valued at R58.7bn through a 63.7% shareholding in Growthpoint Properties Australia (Goz) and six community shopping centres in the UK valued at R9.3bn through a 68.1% investment in LSE- and JSE-listed Capital & Regional (C&R).

Through its 29.5% investment in LSE Aim-listed Globalworth Real Estate Investments (GWI), Growthpoint owns an interest in 71 office and industrial properties with its effective share valued at R17bn.

Growthpoint reinvested the June 2023 dividends received from C&R and GWI and invested in C&R’s open offer for the acquisition of Gyle Shopping Centre in Edinburgh.

All Goz's portfolio metrics are excellent: 97.5% of the portfolio is occupied by gross lettable area (GLA), 94% is leased to the government, listed and large organisations, and it has a weighted average lease expiry of 5.8 years.

Goz's balance sheet is robust with gearing of 38.4%, 77% of debt fixed for an average term of 2.7 years at a rate of 3.2% and it has AUD297m of undrawn debt facilities. However, higher interest rates saw Goz's portfolio valuation decline 4.2% on a like-for-like basis in AUD over the six months.

Growthpoint worldwide investments

GWI reduced vacancies to 11.7% from 14.5% at FY23, showing good leasing and portfolio performance. It continued its development focus on high-quality industrial facilities in Romania. In Poland, it is refurbishing two mixed-use properties of 75,0000m², and finalised the sale of its Warta Tower office building in Warsaw for €63.4m.

GWI has an LTV ratio of 42.2%, €396.3m of cash on hand and EUR265m of undrawn debt facilities. Given the significant debt refinancing in 2025 and 2026 which GWI is planning for, Growthpoint expects a decrease in dividend income from GWI for the full year.

The first units are snapped up at Growthpoint's Arterial Industrial Estate development
Catchwords 20 Dec 2023

GWI's portfolio valuation, impacted by higher interest rates, reduced 5.2% in the period and DPS reduced 26.7% to €11cps translating into R146.1m, which Growthpoint will receive in shares for HY24 against R166.6m for HY23.

C&R's community-focused, value-driven retail strategy produced healthy metrics. Footfall increased by 1.8% on HY23, and new leases were signed at an average premium of 0.6% on previous rentals.

C&R has re-let all three units vacated by the administration of Wilko, which negatively impacted portfolio occupancy of 92.1% by GLA. In September 2023, it completed the £43m acquisition of Gyle Shopping Centre in Edinburgh in an earnings-enhancing transaction, part-funded by a £25m capital raise which Growthpoint underwrote.

Ultimately, Growthpoint invested £21.8m via the rights offer.

Growthpoint's SA portfolio

Domestically, Growthpoint owns and manages a diversified core portfolio of 352 retail, office, and industrial properties across SA. It manages these assets to optimise their value over the long term but also seeks to sell non-core assets and recycle capital to rebalance its portfolio towards higher growth sectors and regions, specifically industrial assets and the Western Cape region.

It also owns seven trading and development properties. Growthpoint sold nine properties for R635.4m during the period at close to book value, and one trading and development property for R141m. In total Growthpoint has sold R12bn of assets since 1 July 2016.

Ratanga Park: Century City's new mixed-use node for astute property investors
Rabie Property Group 19 Feb 2024

Growthpoint's SA portfolio showed it was on a far firmer footing with reduced vacancies, which have steadily improved from 10.1% at HY23 to 9.7% at FY23 and are currently 9.2%.

Rental renewal growth is showing a similar positive trend, moving from -16.0% to -12.9% and -7.1% over the same period. Likewise, its renewal success continued to step up from 61.2% to 64.9% and now 79%. Credit metrics improved, and arrears reduced to R129.7m. The cumulative result was a 0.4% increase in SA property values to R64.2bn, signifying greater stability.

Growthpoint: expenses, industrial strength

Growthpoint's total expense ratio for its SA business rose to 37.8% (HY23: 35.6%), driven by above-inflation hikes in municipal rates and taxes, rising utilities costs and the need for more diesel to power emergency electricity generators to power tenants due to frequent load shedding.

Growthpoint's strongest and most active sector remained its industrial property portfolio. Like-for-like net property income (NPI) increased by 5.8%, driven by better sector dynamics, good letting, improved renewal rental growth, and significantly fewer bad debts.

All portfolio metrics were positive, with 44 of the 101 leases renewed at positive renewal growth rates averaging 3% in the period.

The portfolio's vacancy rate is impressively low, at just 3%. This figure excludes speculative developments aimed at increasing exposure to the industrial sector, specifically modern logistics and warehousing properties.

Growthpoint is currently developing speculative industrial properties in Cape Town, Gauteng and KZN. Additionally, it completed two tenant-driven projects in Ekurhuleni. Positive key metrics edged up the industrial portfolio value by 0.3%.

Operational highlights and investment initiatives

The retail property portfolio delivered like-for-like NPI growth of 2.9%, based on a steady low core vacancy of 3%, a much-increased renewal success rate of 91.9% (FY23: 83.3%) and rental growth of 3.1% on average, on 39.4% of the GLA renewed in the period.

Portfolio trading densities rose 5.9% in December 2023 compared to December 2022. For the six-month period, trading densities increased by 4.2% (FY23: 6.2%), despite several industry challenges, including load shedding and higher interest rates impacting consumer spending.

R21.7bn allocated for airport infrastructure development

6 Mar 2024

In a welcome positive trend, Growthpoint's office property portfolio vacancies reduced yet again, improving to 17.8% (FY23: 19.2%) from their 22.4% peak in March 2022.

While like-for-like NPI for this sector remained negative due to rentals reverting to market, tenants still consolidating and downsizing, pressure on renewal growth and escalating operating costs, the office portfolio valuation was positive for the first time in years, increasing 0.8% (FY23: -0.9%).

Growthpoint invested R1bn in development and capital expenditure for its SA portfolio in HY24, with commitments of R1.6bn at HY24.

Growthpoint's in-house trading and development division develops assets for its own balance sheet and earns development fees from external projects and profits from trading.

V&A Waterfront's phenomenal performance

Net property income increased an impressive 17.2% at the iconic V&A Waterfront, Cape Town, in which Growthpoint has a 50% interest with its share of property assets valued at R10.3bn. This outstanding performance was driven by a 109% increase in turnover rental and fuelled by increased tourism and its knock-on benefits for retail, hotels and attractions.

V&A retail sales increased by 18% in the period and trading densities increased by 21% on a rolling 12-month basis — more than double the MSCI super-regional shopping centre benchmark.

Rentals also exceed this benchmark, and with a 0.4% vacancy, demand for prime space is buoyant. The first TimeOut Market in Africa is trading exceptionally well after opening at the V&A in November 2023. This month also saw the refurbished helistop opening, with trading up 122% in November and 138% in December.

Demand for V&A offices is strong, with vacancies at a minuscule 0.1%, and an increase in staff returning to their offices is noticeable in the precinct. Investec Bank moved into its 10,500m² new office in November 2023.

Ninety One has taken temporary offices at the V&A of 3,500m² while Growthpoint completes the green redevelopment of its foreshore premises. The 7,000m² office conversion in the Cape Town Cruise Terminal building is underway for completion in mid-2024.

Growthpoint Investment Partners has R17.9bn of assets under management (AUM). This includes three funds distinct from Growthpoint’s retail, office and industrial core assets: Growthpoint Healthcare Property Holdings, Growthpoint Student Accommodation Holdings and Lango Real Estate.

The capital-efficient alternative real estate co-investment platform delivered increased asset management fees of R52m (HY23: R48.1m) although its dividends decreased to R48.6m (HY23: R79m). Growthpoint Investment Partners invested R178.9m in development and capital expenditure, R633.5m in acquisitions and has commitments of R541.7m.

In conclusion, Sasse says, “Growthpoint has a diverse portfolio and income streams which position us defensively for FY24.

"Given that the LTV trajectory is upwards in the short to medium term, we will focus on strategic initiatives to preserve liquidity and balance sheet strength in the long term, thereby delivering value for all stakeholders. This will enable us to meet our objectives for FY24 and beyond.”