

Vukile, Arrowhead, Synergy launch GemGrow Properties Limited

Vukile Property Fund, Arrowhead Properties and Synergy Income Fund have concluded agreements for a transaction that will create a fund within the existing entity of Synergy - to be renamed GemGrow Properties Limited.



Laurence Rapp, Vukile CEO

The transaction, which is positive for all the funds involved, is expected to increase Synergy's market capitalisation to R3,4bn, with a property portfolio valued at around R4,4bn. The GemGrow vehicle will re-energise and differentiate Synergy and give it a new platform for growth with yield-enhancing acquisitions.

To establish GemGrow, Synergy's portfolio will be reconstituted with properties from both Vukile and Arrowhead for its asset base.

Specialised retail property fund

In the case of Vukile, a R2,45bn asset swap will see Synergy exchange its entire portfolio of 14 retail shopping centres in return for 29 of Vukile's higher-yielding office, retail and industrial properties. This will transform Vukile into a specialised retail property fund in South Africa with over 90% of its portfolio comprising high-quality retail assets. Vukile will also benefit from its passive stake in the high-growth new GemGrow.

In the case of Arrowhead, its subsidiary, Cumulative, which holds 100 high-yielding office, retail and industrial properties valued at R1.9bn, will be acquired by Synergy in return for the issue of Synergy B shares to Arrowhead. This will realise Arrowhead's strategy of placing its high-yielding properties in a separate JSE-listed subsidiary. Arrowhead property portfolio will consist of large quality properties.

Gerald Leissner will be the CEO of GemGrow. Leissner is a doyen of the property industry with a skilled acumen of optimising A and B share structures and higher-yielding funds. Synergy's asset and property management will be internalised. To achieve this, Synergy will acquire its asset manager, Vukile Asset Management, in return for the issue of Synergy B shares to Vukile.

After the transaction's implementation date, set for 1 October 2016, Arrowhead will hold around 62% of Synergy B shares (55.22% of Synergy's share capital) while Vukile will hold just over 29% of Synergy B shares (26.38% of Synergy's share capital).

Laurence Rapp, Vukile CEO, comments: "For some time now, our goal has been to craft Vukile's direct South African assets into a specialist retail property fund. With this transaction, Vukile will achieve our goal, placing over 90% of our assets in the most defensive and preferred property sector. At the same time, it reduces Vukile's gearing and achieves our objectives for Synergy only 18 months after successfully acquiring it."

Income-focused fund

Mark Kaplan, COO of Arrowhead Properties, comments: "Transferring our high-yielding properties into a separate listed subsidiary that is positioned for yield-enhancing growth is a strategic objective for us. We are thrilled to achieve it with this transaction which creates an income-focused fund that invests in a niche space, currently ignored by most listed property funds, where its dedicated management can add real value. Arrowhead will benefit from a refined portfolio of bigger and better quality properties to focus on going forward."

With Synergy's A and B share structure, each share offers investors a different risk and reward profile. Synergy A shares offer more risk-averse investors preferential dividends capped at 5% growth per annum, representing secure, predictable earnings. Its B shares make it the ideal structure for investors looking for a higher-growth proposition. After paying dividends to A shareholders, remaining distributable earnings accrue to B shareholders.

"The transaction is a unique meeting of minds, addressing various strategic objectives of three separate entities, in turn creating a vehicle that offers shareholders exposure to a unique dual-class share structure with a focus on acquiring assets at attractive yields that will enhance earnings and growth prospects for the company," concluded Gerald Leissner, CEO of GemGrow.

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