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Growthpoint vs Redefine: comparing the giants

Both Growthpoint (GRT) and Redefine (RDF) are household names among South African property investors, boasting a combined portfolio valued at an impressive R250 billion while their collective market capitalisation represents a significant 25% of the JSE Listed Property Index (SAPY). To own portfolios of this magnitude, both real estate investment trusts (REITs) have diversified into multiple property types and offer international diversification, spanning South Africa, the UK, Poland, and Australia. While they may appear to be suitable substitutes for each other at first glance, their underlying portfolios have diverged in recent years, offering shareholders different options to suit their investment preferences.

Daniel Reynard

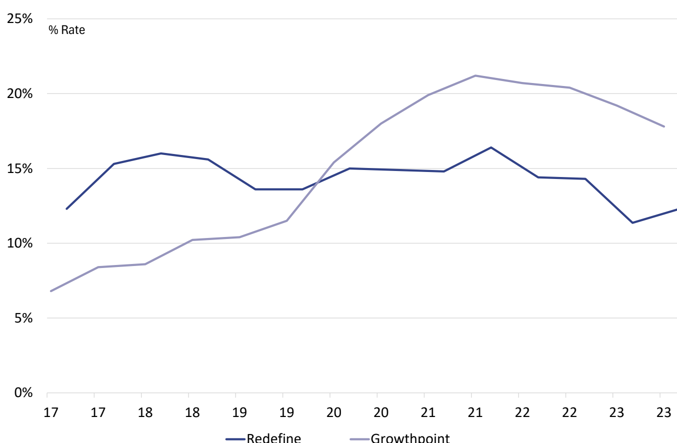
The Core SA Portfolio

Focusing on the core South African portfolios first, Growthpoint's total portfolio has a smaller 46% exposure to core South African retail, industrial and office properties compared to Redefine's larger 62% exposure. Since 2017, both REITs have seen their exposure to SA core properties shrink relative to their total portfolio, with Growthpoint and Redefine's exposures decreasing from higher levels of 63% and 81%, respectively. This has occurred due to both companies using most of their new capital raised to expand offshore, rather than investing into the local economy, which has had its fair share of headwinds in recent years. Put simply, both REITs have become less South African focused since 2017.

SPEED READ

- **Redefine's core portfolio has greater exposure to the South African economy as well as a larger percentage of premium grade office space.**
- **Growthpoint owns 50% of the V&A Waterfront as well as Growthpoint Investment Partners (GIP) to invest in alternative property sectors.**
- **Redefine's offshore investments are concentrated in Poland, while Growthpoint has significant exposures to Australia, Central and Eastern Europe as well as the UK.**
- **Both balance sheets have a high amount of leverage but remain stable**
- **Dividend track records have been poor for both REITs, however, Redefine is expected to have a more positive outlook.**

OFFICE VACANCIES



Thanks to a more proactive stance, Redefine has positioned its portfolio towards P-Grade office space, which has resulted in a better vacancy profile.

When analysing the core retail, industrial and office properties of Growthpoint and Redefine, a notable tale of two office portfolios emerges. The differences observed may be summed up in two high-level points, the first being that Redefine's portfolio has significantly transformed after meaningful repositioning, currently consisting of more premium-grade office space compared to prior periods, and the second is how much better Redefine's office segment has performed because of this transformation. Expanding on the first point, Redefine has reduced the number of office properties owned by 27% since 2017, while increasing its exposure to premium-grade office space from 40% to 54%, by selling off most of its B- and C-grade properties. In contrast, Growthpoint's office segment took a more

conservative approach, trimming its office portfolio by just 16%. The disposal of B- and C-grade offices was less aggressive, and Growthpoint's exposure to premium-grade space remains lower at 26%. Regarding the second point observed, Redefine's transformation to higher-quality office space has led to an 18.5% increase in the average value per square meter since 2017, while Growthpoint's metric has shrunk with an underwhelming 16.5% decrease. The benefits of investing in higher-quality office spaces - something Redefine has clearly capitalized on - include lower vacancy rates as tenants recognise the value of premium grade space after significantly reduced rents following the pandemic.

Investments Unique to Growthpoint

Shifting focus to alternative property investments, Growthpoint genuinely stands out. Growthpoint owns 50% of the popular V&A Waterfront, which is currently the crown jewel in Growthpoint's portfolio as tourism in Cape Town has rebounded with 25 million visits to the V&A Waterfront in 2023 alone, while the property boasts strong rental growth year-on-year with almost no vacancies.

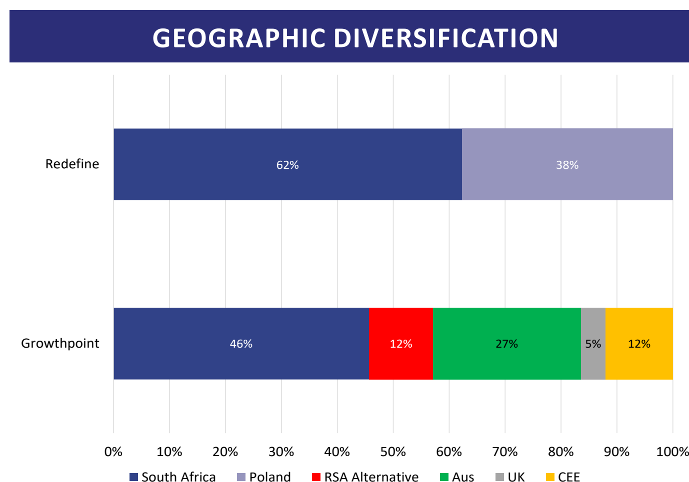
Another unique alternative investment to Growthpoint that few other companies in the SAPY can replicate is the Growthpoint Investment Partners (GIP) platform, which invests and manages alternative property types at scale, including student accommodation and healthcare facilities, on behalf of third-party investors. The two main advantages that the GIP platform provides to the Growthpoint shareholders is greater property diversification and a steady stream of management fees from less capital-intensive investments compared to direct property ownership.

Offshore Comparison

Investments made offshore is where these two REITs differ the most. Redefine, which currently offers a more focused offshore portfolio, owns the former JSE-listed Echo Polska Properties (EPP) and a controlling stake in European Logistics Investments (ELI). Both investments are based in Poland, offering Redefine investors exposure to high quality retail and logistics properties in a high growth region of Europe. Like the core South African office portfolio, Redefine has significantly repositioned the offshore portfolio over the last few years, divesting from the UK and Australia to focus on Poland.

On the other hand, Growthpoint remains invested in the UK and Australia, owning the majority of Growthpoint Australia, affectionately known as GOZ, as well as a controlling stake in Capital & Regional and a non-controlling stake in Central and Eastern-European based Globalworth Investments. Recently, Capital & Regional has been featuring in the news as other REITs have offered to buy out this UK retail property owner from Growthpoint. Compared to Redefine, Growthpoint offers investors a greater exposure to international offices via investments in GOZ and Globalworth.

GEOGRAPHIC DIVERSIFICATION

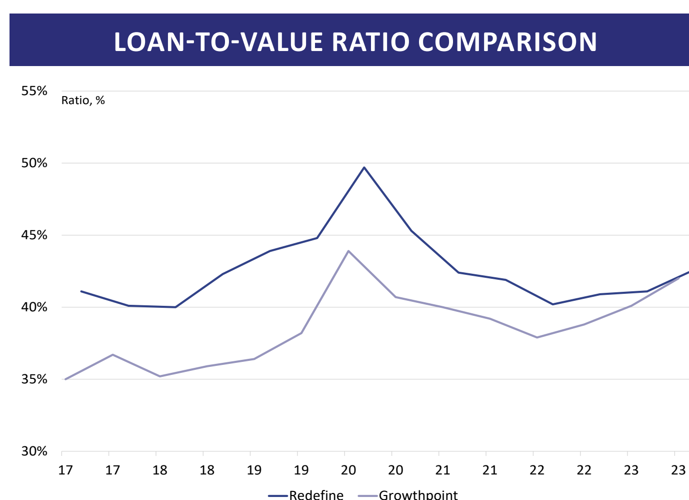


Over the past 7 years, Redefine has greatly simplified its portfolio to two core regions, whilst Growthpoint has a more diversified portfolio that includes Australia and the UK.

Financial Health

Briefly touching on the financial health of each balance sheet, the reported loan-to-value ratios favour Growthpoint's lower LTV ratio of 42.0%, compared to Redefine's marginally greater 42.6% ratio. However, when considering the "look-through" value, which accounts for different ownership structures of investments, there is a more significant difference between the two REITs. The "look-through" ratio favours Growthpoint's lower 44.2% ratio compared to Redefine's greater 48.4% ratio. That said, ratios for both REITS are at higher levels than where management and shareholders would like them to be at the top of the interest rate cycle given the cost of capital is high. Nonetheless, there is no need for alarm as both REITs have more than sufficient

LOAN-TO-VALUE RATIO COMPARISON



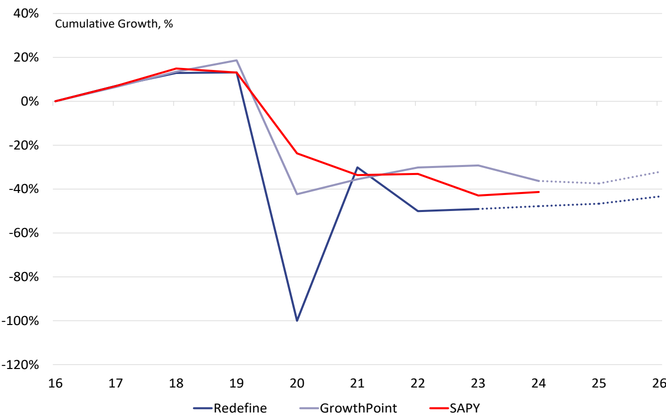
There is not much to separate the LTV ratios for the two companies, and whilst they might be a little high in the context of the current cycle, both REITS have ample facilities to meet any maturing debt obligations.

credit facilities extended to them by banks to cover any loans that are maturing in the next 12 to 18 months.

Dividends

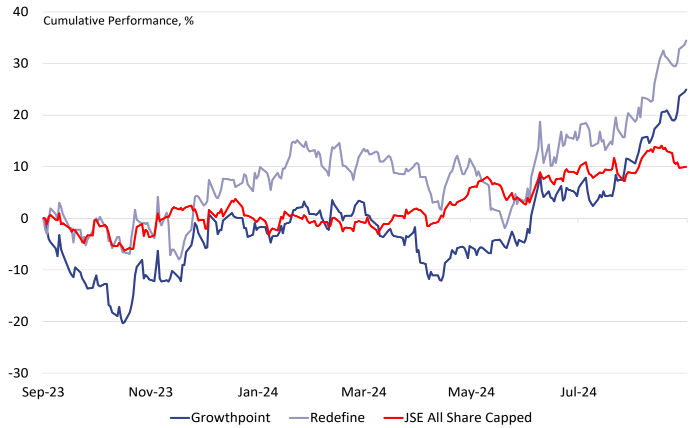
How have the above differences manifested themselves in the dividend trajectory? Bluntly, neither Growthpoint nor Redefine have a flattering historical dividend track record. Growthpoint has fared better with cumulative annual growth down 36% and Redefine is down 49% since the SAPY's hay day in 2017. But both are very much in line with the broader sector. Looking to the future, the market is expecting slightly better dividend growth for Redefine over the next two years with an average 3.6% growth, while the market is expecting average growth to be flat growth for Growthpoint. A key driver of the difference in future dividend performance may be attributable to Growthpoint's offshore investments yet to fully reflect the brunt of higher interest rates in important markets such as Australia. That said, local interest should start to fall next week as the SARB starts its easing cycle. That, combined with better GDP growth and less loadshedding, would imply upside risk to current forecasts.

CUMULATIVE DIVIDEND GROWTH



Due to the timing of its year end, redefine did not pay a dividend at all in its FY20 year, whereas Growthpoint paid an interim dividend before Covid took hold. Otherwise, the trajectories have been largely similar, and very much in line with the broader sector.

PRICE PERFORMANCE



Despite their differences, both Growthpoint and Redefine has performed exceptionally well over the past year – outperforming the broader market - as listed property has reacted to improving conditions.

In conclusion, reflecting on the differences separating these two large REITs, it may feel more like an art than science when choosing one over the other. Redefine owns a better overall portfolio, with higher exposure to better-performing sectors of the market and is focused in economies with higher growth potential, while Growthpoint has greater geographic diversification as well as investments in alternative property sectors such as student housing and heathcare, which are defensive and different to anything else listed on the JSE. Bear in mind that there are many other key factors beyond the factors mentioned in this article that will drive their respective performances, but the over the past year, both Growthpoint and Redefine have been solid investments, significantly outperforming the JSE All Share over the same period.

Redefine built this custom facility for Massmart in Cape Town.

By the end of November, it will have been six months since our election ushered in the GNU. This presentation will focus on the outlook for 2025, and delve specifically into whether the SA story is still intact.

Topic:	Outlook for 2025. Is that SA Story Intact?
Natal Midlands	
Date:	05 December 2024
Venue:	Christ Church Howick, 23 Mare Street, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm
Johannesburg	
Date:	04 December 2024
Venue:	Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham
Time:	7am for 7.30am
Cape Town	
Date:	2 December 2024
Venue:	SSISA Conference Centre, Boundary Road, Newlands, Classroom 1, 3rd Floor
Time:	7.30am
Venue:	ABRU Motor Studio, Lourensford Wine Estate, Somerset West
Time:	5.30pm for 6pm

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