



COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: 020198

In the matter between:

ARROWHEAD RESIDENTIAL LIMITED Acquiring Firm

And

JIKA PROPERTIES (PTY) LTD Target Firm

Panel : Norman Manoim (Presiding Member),
Yasmin Carrim (Tribunal Member)
and Medi Mokuena (Tribunal Member)
Heard on : 11 February 2015
Order issued on : 11 February 2015
Reasons issued on : 25 February 2015

Reasons for Decision

- [1] On 11 February 2015, The Competition Tribunal ("Tribunal") unconditionally approved the merger between Arrowhead Residential Limited ("Arrowhead Residential") and Jika properties (Pty) Ltd ("Jika")
- [2] The reasons for approving the proposed transaction follow.

Parties to Transaction and their Activities

Primary acquiring firm

- [3] The primary acquiring firm is Arrowhead Residential, a wholly-owned subsidiary of Arrowhead Properties Limited ("Arrowhead"), a public company listed on the Johannesburg Securities Exchange. In addition to Arrowhead Residential, Arrowhead controls Vividend Income Fund Limited and Vividend Management Group. Its top beneficial unit holders, holding more than 5% of the A and B linked units are listed below:

Unit Holder	A Linked Units	B Linked Units
Coronation Fund Managers	11.48%	11.37%
Nedbank Group	11.25%	7.29%
Investec Asset Management	5.29%	9.25%
Stanlib Group Limited	3.41%	3.29%
Government Employees Pension Fund	3.64%	3.25%

- [4] Arrowhead Residential is listed under the 'Real Estate- Real Estate Holdings and Development' sector on the JSE and has had Real Estate Investment Trust status as of 1 October 2013. Arrowhead holds a diverse portfolio of properties comprising of rentable, retail, residential, office and industrial space located across South Africa. In addition, Arrowhead conducts its own internal asset management services with respect to its property portfolio whilst outsourcing its property management to other companies.¹

¹ These companies include: JHI Properties (Pty) Ltd, Citiq Property Services (Pty) Ltd, Amorispan (Pty) Ltd and Mafadi Property Management (Pty) Ltd

Primary target firm

- [5] The primary target firm is Jika. Jika is jointly controlled by Citiq (Pty) Ltd ("Citiq") (92.09%) and Amber Falcon Properties (Pty) Ltd ("Amber Falcon") (7.96%). Amber Falcon does not control any firm. Citiq controls Citiq Commercial (Pty) Ltd, Citiq Property Services (Pty) Ltd, Citiq Meter Solutions (Pty) Ltd, Citiq Property Developers (Pty) and Segstone Trading (Pty) Ltd.
- [6] Jika is engaged in the business of property development, investment holding and letting, primarily in the South African region. Its main focus is acquiring affordable housing in the form of township units and apartments as rental in Gauteng. Jika also invests in student accommodation in close proximity to the Tshwane University of Technology, the University of the Witwatersrand and the University of Johannesburg.

Proposed Transaction:

- [7] In terms of the Sale of Shares and Claims Agreement entered into between Arrowhead Residential, Jika, Citiq and Amber Falcon, Arrowhead Residential seeks to acquire shares in, and claims against, Jika from Citiq and Amber Falcon respectively. Upon completion of the proposed transaction, Arrowhead Residential will acquire sole control over Jika and its residential properties. Jika's residential property portfolio consists of the following:
- 37 residential properties collectively comprising 856 residential units situated in the Johannesburg CBD, Joubert Park, Berea, Fairview, Townsview, Kenilworth, Yeoville, Rosettenville, Booyens, Hillbrow and Bellevue;
 - 19 residential properties collectively comprising of 207 residential units situated in Randburg, Windsor East and Windsor West;
 - 1 residential property comprising of 44 residential units in Rouxville, Johannesburg, that is situated in Parkwood, Highlands North, Alexandra, Wynberg, Morningside and Douglasdale;
 - 2 residential properties collectively comprising 112 residential units situated in Brakpan;

- 4 residential properties collectively comprising 467 residential units situated in different locations in Pretoria.

[8] The Sale of Shares and Claims Agreement is subject to an Excluded Assets Agreement. In terms of the latter agreement, the parties agreed that certain assets owned by Jika will be excluded from the sale and transferred to Citiq. At the hearing, the merging parties confirmed that the assets excluded from the sale are the properties used for student accommodation.²

Rationale:

[9] Arrowhead submits that the proposed acquisition of Jika and its residential properties is in line with its strategy to acquire higher yielding properties with a sustainable revenue stream. This speaks to Arrowhead's main focus, which is to increase returns for its investors. Further, the acquisition provides Arrowhead residential with an opportunity to diversify its property portfolio and to expand the listed residential property sector in the real estate market.

[10] Citiq and Amber Falcon submit that they seek to focus on the provision of accommodation to the student market. Accordingly, both Citiq and Amber Falcon are disposing of non-core assets in order to generate funding and capital for the future development of student accommodation and new residential apartments.

Relevant Market and Impact on Competition:

[11] The Commission identified the relevant product market as the market for the provision of rental space in residential properties.

[12] Although the Commission did not conclude on the geographic market,³ it found that the relevant areas affected by the proposed transaction are the Johannesburg CBD and surrounding areas as well as Randburg and its

² See page 3 of the Transcript.

³ In the merger between *Presmooi (Pty) Ltd, Savyon Building (Pty) Ltd and IPS Investments (Pty) Ltd and Drystone Investments (Pty) Ltd, Prophold Ltd, Odeon Investments (Pty) Ltd and Adamax Property Projects, Persequor Park (Pty) Ltd*, the Commission found that properties located 8km apart do not pose a competitive constraint on each other thus suggesting a narrow geographic market including a radius of below 8km. However, in this case, the geographic market could be wider than an 8 km radius depending on the geographic area.

surrounding areas.⁴ The Commission therefore considered the activities of the merging parties to determine whether any overlaps existed between them in these areas.

[13] As noted, Arrowhead holds a diverse portfolio of properties comprising of rentable, retail, residential, office and industrial space located across South Africa, including Gauteng. Jika, on the other hand, holds a portfolio of 63 residential properties in Gauteng. The Commission thus concluded that a horizontal overlap exists between the activities of the parties as both own residential property in Gauteng and more specifically in the Johannesburg CBD and surrounding areas as well as Randburg and its surrounding areas.

[14] Further, it found that based on the estimated post-merger market shares provided by the merging parties', the merged entity will have the following market shares in the affected areas.⁵

Affected area:	Market share:	Accretion:
Johannesburg CBD and surrounding areas	3.67%	2.14%
Randburg and surrounding areas	4.10%	2.07%

[15] In addition, the Commission found that the market comprises of a number of market participants, which include various private and listed firms as well as individuals that rent out property. The merged entity will therefore continue to face competition in the affected markets post-merger.

[16] Accordingly, the Commission concluded that the proposed transaction is unlikely to substantially prevent or lessen competition in the market for the provision of rental space in residential properties in the Johannesburg CBD and surrounding areas and Randburg and surrounding areas.

⁴ These areas encompass Johannesburg CBD, Joubert Park, Berea, Fairview, Townsvlew, Kenilworth, Yeoville, Rosettenville, Booysens, Hillbrow, Bellevue, Windsor West and Randburg.

⁵ The Commission relied on the post-merger market shares of the merging parties as the information was not publically available on the Gross Lettable Areas for residential properties. The Competitors were also unable to provide market share estimates for the merged entity.

Public interest:

[17] The Commission identified no public interest concerns likely to arise from the proposed transaction.

Conclusion:

[18] In light of the above, we agree with the Commission's analysis and conclude that the proposed transaction is unlikely to substantially prevent or lessen competition in the relevant market. In addition, no public interest issues arise from the proposed transaction.



Norman Manoim

25 February 2015

DATE

Yasmin Carrim and Medi Mokuena concurring.

Tribunal Researcher: Ammara Cachalia

For the merging parties: Vani Chetty of Baker & McKenzie

For the Commission: Zanele Hadebe