COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA

Case no.: 29/LM/Jun03

In the large merger between:

Primegro Properties Ltd

and

Growthpoint Properties Ltd

Reasons for Decision

Introduction

On 30 July 2003 the Competition Tribunal approved the merger between Primegro Properties Ltd and Growthpoint Properties Ltd. The reasons for approving the transaction are set out below.

The transaction

Both parties are involved in the property loan stock sector. In terms of the transaction Growthpoint will acquire all the assets and liabilities of Primegro, which will be voluntarily wound up subsequent to the sale of its business.

Parties to the transaction

The primary acquiring firm is Growthpoint Properties Ltd ("Growthpoint"), which is listed on the JSE Securities Exchange South Africa. The following firms hold more than 5% of the issued capital of Growthpoint: Investec Group (5.32%), Mine Empoyees Pension Fund ("MEPF") (40.54%) and Sentinel Mining Industry Retirement Fund ("Sentinel") (29.43%).[1]

[1] MEPF and Sentinel collectively make up the Mine Pension Funds. The Mine Pension Fund thus controls Growthpoint by virtues of its 69.97% shareholding.

The primary target firm is Primegro Properties Ltd ("Primegro"). Primegro is a public company listed on the JSE securities Exchange South Africa and is not controlled by any one firm in particular. Firms holding more than 10% of the issued capital of Primegro are The Public Investment Commission (17%), the Sanlam Group (13.6%), the Investec Group (10.6%) and Marriot Funds (10.4%).[2]

Rationale for the transaction

According to Growthpoint the merger would increase its critical mass, thereby strengthening its position to take advantage of any further acquisition opportunities that might arise within the listed property loan sector. The increased liquidity post merger should result in the inclusion of Growthpoint in the "All-share Index" weighting, making Growthpoint linked units more attractive to investors. Moreover, because the property portfolios of Growthpoint and Primegro are complimentary, the merger would enhance the overall quality and spread of the merged property portfolio.

Primegro considers a merger or acquisition as the best and most efficient way to meet certain of its stated strategies and deliver on market expectations within reasonably foreseeable time limits.

Competition Analysis

The relevant market

Growthpoint derives its income primarily from rentals received from tenants in its 70 properties throughout South Africa, as well as from investments in other listed property loan stock companies. Primegro derives its income from rentals received from 52 properties owned throughout South Africa.

The merging parties' activities overlap in the provision of office property, retail property, industrial property and other property. Office properties are sub-divided into different classes, for example grade P, A, B, or C Office Property.[3] Retail property can be divided into regional, community neighbourhood, local convenience, retail warehouses and value centres.[4] Industrial property can be divided into light industrial and heavy industrial property and other property consists of residential, i.e. houses and flats, and hotels.

The merging parties and the Competition Commission based their geographic market analysis on the different nodes as identified by the South African Property Owners

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[2] All these companies, except the Public Investment Commission, hold shares on behalf of various funds under various mandates.

[3] Office Property is graded according to the age of a building, the quality of the office accommodation, parking and other finishing touches to building with grade P being a top quality property and C an older building without, for example, air-conditioning and parking.

[4] Retail property is classified according to the available retail space per square meters, with for example regional retail property occupying 30 000 – 60 000 square metres to local convenience retail property occupying 300 – 1000 square metres.

Association ("SAPOA"), which are used by all participants in the industry.[5] They group different geographic areas that compete with each other into nodes, which vary for the different types of properties.

The Commission, in its analysis, found that the merging parties' product markets overlap in the following areas:

Grade A office property in the Eastern Pretoria
Grade A office property in Sandton
Grade B office property in Pretoria Central
Grade B office property in Eastern Pretoria
Grade B office property in Sandton
Regional shopping centres in Durban
Light industrial property in Johannesburg

Effect on Competition

Growthpoint and Primegro's major competitors in this industry are Liberty Life, Old Mutual, Investec (Tresso Trading), Standard Bank and Redefine Income Fund.

Post the merger Growthpoint's market share in each relevant market will be as follows:

<u>Office property</u>

The combined market share of the merged entity for Grade A Office Property in Eastern Pretoria will be 7.1% and in Sandton 0.9%.

The combined market share of the merged entity in Grade B office Property in Pretoria Central will be 4.2%, in Easter Pretoria 12.8% and in Sandton 3.7%.

<u>Regional Shopping Centres</u>

The overlapping regional shopping centres in Durban are the La Lucia Mall in Umhlanga and Game City Durban, which is situated in Durban CBD. The post merger market shares for regional shopping centres in Durban will be 18.14%.

Other properties that compete with the merged entity are:

?? Pavilion
?? Chatsworth
?? Sanlam Pinetown
?? Hyperama Prospectron
?? Mustgrave Centre

[5] This is based on SAPOA's office vacancy survey for December 2002.

?? Gateway Shopping Centre[6]

Light Industrial Property

The post merger market share for light industrial property in Johannesburg is 2.5%.

Investec Property Group, which also holds 5.8% in the merged entity, performs the management of certain of Growthpoint's properties. If we add Investec's market shares to those of the merged entity in the two relevant markets in which overlap occur, the market shares of the merged entity will change as follows:

1. Grade A Office Property in Sandton will increase from 0.9% to 1.37%.
2. Light Industrial Property in Johannesburg will increase from 2.5% to 2.68%.

Based on the above analysis we agree with the Competition Commission that the merger would not substantially prevent or lessen competition in the above-mentioned relevant markets.

Public interest

The transaction does not raise any significant public interest concerns.

____________ 16 September 2003
D Lewis **Date**

Concurring: N Manoim, U Bhoola

For the merging parties: Elmarie Barnard from Jowell Glynn and Marais

For the Commission: Mark Worsley

[6] The parties did not include this shopping centre in its market analysis, however, the Commission's investigation revealed that the Gateway Shopping Centre is also a regional shopping centre. By including Gateway in the market analysis the market share of the merged entity is diluted from 26% to 18.14%.