

In The Large Merger Between:

Vukile Property Fund Limited

And

MICC Property Income Fund Limited

Reasons for Decision

Approval

1. On 17 November 2004 the Competition Tribunal issued a Merger Clearance Certificate approving the transaction between Vukile Property Fund Limited and MICC Property Income Fund Limited. The reasons for this decision follow.

The Parties

2. The primary acquiring firm is Vukile Property Fund Limited¹ ("Vukile"), a public company listed on the JSE Securities Exchange South Africa. Vukile is controlled by Sanlam Property Asset Management (Pty) Ltd, which is ultimately controlled by Sanlam Limited (collectively referred to as the "Sanlam Group"). Vukile controls Basfour 2776 (Pty) Ltd, Lekup Properties No.1 (Pty) Ltd and Lekup Properties No. 2 (Pty) Ltd.
3. The primary target firm is MICC Property Income Fund Limited ("MICC"), a public company which controls MICC Properties (Pty) Ltd and Century Property Holdings (Pty) Ltd.

The transaction

4. Vukile is acquiring 100% of the linked units in MICC. Each linked unit comprises one share in Vukile indivisibly linked to one debenture in MICC. The offer consideration comprises 12 linked units in Vukile for every 10 linked units in MICC.

Rationale for the transaction

5. Through the acquisition, Vukile will broaden its investor base and thereby improve trading since the nature and type of assets currently owned by MICC suit the objectives of the Vukile property portfolio. The transaction will also provide Vukile with increased exposure in the Western Cape.

¹ Incorporated as Selcovest 23 (Pty) Ltd. See Selcovest 23 (Pty) Ltd and Basfour 2776 (Pty) Ltd 27/LM/Apr04

The Parties' Activities

6. Vukile and its subsidiaries own and lease retail, commercial and industrial properties. The Sanlam Group has five operational clusters involved in life insurance, short term insurance, investment, banking and independent financial services. Sanlam Limited owns properties that represent a mix of retail, commercial and industrial properties. These properties are leased to a wide range and number of tenants. Sanlam Property Asset Management performs asset management functions in respect of those properties.
7. MICC is involved in property investment through the direct ownership or lease of immovable property. MICC owns and leases a variety of commercial, retail and industrial property.

The Relevant Market

The Product market

8. Both parties are active in the property industry. The property market can be segmented into different types of property (either office, retail, commercial or industrial) depending on the use for which they will be put, as well as the grade of such property.²
9. In previous decisions³ the Tribunal accepted that within the office property segment, the different grades of office property (grades A, B, C and P) constitute different relevant product markets.⁴ We have also stated previously⁵ that within the retail property market, community shopping centres, neighbourhood shopping centres, local convenience centres, value centres and shopping malls, constitute different relevant markets.⁶ Industrial property can be divided into light industrial and heavy industrial property.⁷
10. The Commission evaluated the properties being acquired and matched them to the existing Vukile and Sanlam portfolio. Broadly, the merging parties' activities overlap in the provision of Grade A office property, Value Centres, Mini Factory complexes and Distribution Warehouses.

The Geographic market

11. The property market is further segmented into different geographical areas or "nodes". All areas *within* that node compete with each other and are substitutable.⁸ The Commission, in its analysis, found that the merging parties' product markets overlap in the following areas:

Grade A office space in the Sandton node
Value centres in Nelspruit

² Selcovest supra

³ See Momentum Property Investments (Pty) Ltd and Bonatla Property Holdings Limited, case no. 34/LM/Jul03.

⁴ 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.

⁵ See Primegro Properties Ltd and Growthpoint Properties Ltd, case no. 29/LM/Jun03.

⁶ Ibid. 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.

⁷ Supra footnote 5.

⁸ Selcovest supra

Distribution warehouses in Pinetown
Mini factories in the Randburg Node

Impact on competition

12. The combined post-merger market shares in the two of the relevant markets do not exceed 15%, namely in that for value centers in Nelspruit and distribution warehouses in Pinetown. Even though in the market for Grade A office space in Sandton and in the market for mini factories in Randburg the market shares marginally exceed 15%, we are satisfied that the property market is sufficiently competitive, as there are a number of competitors in those markets.

Conclusion

13. Having regard to the above, we conclude that the merger will not lead to a substantial lessening of competition and there are no significant public interest concerns. Accordingly, we agree with the Commission's recommendation that the transaction be unconditionally approved.

D Lewis

10 January 2005
Date

Concurring: N Manoim and Y Carrim

For the merging parties: P Coetser (Brink Cohen Le Roux Inc)
For the Commission: E Ramafamba (Mergers and Acquisitions)