



COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: 020669

In the matter between:

REDEFINE PROPERTIES LIMITED

Acquiring Firm

And

LEAF PROPERTY FUND (PROPRIETARY) LIMITED

Target Firm

Panel	: Yasmin Carrim (Presiding Member)
	: Norman Manoim (Tribunal Member)
	: Andiswa Ndoni (Tribunal Member)
Heard on	: 8 April 2015
Order Issued on	: 8 April 2015
Reasons Issued on	: 6 May 2015

Reasons for Decision

Approval

- [1] On 8 April 2015, the Competition Tribunal ("Tribunal") unconditionally approved the merger between Redefine Properties Limited ("Redefine") and Leaf Property Fund (Proprietary) Limited ("Leaf Property Fund").
- [2] The reasons for approving the proposed transaction follow.

Parties to transaction and their Activities

Primary acquiring firm

- [3] The primary acquiring firm is Redefine, a public company listed on the Johannesburg Stock Exchange ("JSE"). Redefine is not controlled by any firm.¹ Redefine controls a number of firms which make up the Redefine Group.²
- [4] Redefine is a property loan stock company listed under the "*Diversified Reits*" sector on the JSE. It currently holds REIT status. Redefine holds a diverse property portfolio which comprises of office, retail and industrial space throughout South Africa. Redefine's interest in office properties is relevant to the proposed transaction.

Primary target firm

- [5] The primary target firm is the Leaf Property Fund, which is a wholly owned subsidiary of the Leaf Property Fund Trust.³ Leaf Property Fund controls Erf 2/49 (Proprietary) Ltd and Any Name 621 (Proprietary) Limited ("Any Name"). Any Name controls Black River Park Investments (Proprietary) Limited ("Black River Park"), Observatory Business Park (Proprietary) Limited and the Property Management Team (proprietary) Limited.
- [6] The Leaf Property Fund's primary business is long-term investment in quality Grade A and premium Grade P office properties, located in major metropolitan areas in Gauteng and the Western Cape.

¹ Redefine's beneficial shareholders, holding more than 5% of its linked units as of 31 August 2014, include: Government Employees Pension Fund (9.59%), State Street (Custodian) (5.84%), Coronation Fund Managers (5.33%), Stanlib (4.86%), Investment Solutions (4.29%), Old Mutual Group (4.24%) and Investec (3.92%).

² The firms directly or indirectly controlled by Redefine are: Madison Property Fund Managers Limited, Fountainhead Property Trust Management Limited ("Fountainhead Manco"), Fountainhead Property Administration Proprietary Limited, Annuity Properties Limited and Annuity Property Managers Proprietary Limited.

³ The trustees of the Leaf Trust are as follows: Paul Stanbrook, Leaf-Wright, Jacqueline Francis Hathorn and Realtime Financial Solutions (Proprietary) Limited, represented by Cornelius Victor Batten.

Proposed transaction and rationale:

- [7] Redefine intends to acquire the Leaf Property Fund from the trustees of the Leaf Property Fund Trust. Upon completion of the proposed transaction, Redefine will have sole control over the Leaf Property Fund.
- [8] Redefine's submitted rationale is that the transaction will enable it to improve the quality of its property asset base and diversify it. Leaf Property Fund submits that the proposed transaction will enable it to realise profitable return on capital for its investors.

Relevant Market and Impact on Competition:

- [9] The Competition Commission ("Commission") identified the relevant product market as the market for the provision of rentable office property, which is further divided into Grade A and P office property. Redefine and the Leaf Property Fund both rent out these types of properties.⁴
- [10] In assessing the relevant geographic market, the Commission found that Redefine's Grade P office properties are located in Gauteng whilst Leaf Property Fund's Grade P properties are situated in Vredehoek and Woodstock in the Western Cape. Thus, there is no geographic overlap in respect of Grade P office property. Hence competition in this market will not be affected.
- [11] With regard to Grade A properties, the Commission found that Redefine owns Grade A properties in the Bryanston and Constantia Kloof nodes in Gauteng as well as the Cape Town CBD and Century City nodes in the Western Cape. Leaf Property Fund owns Grade A office property in Bryanston, the Century CBD and the Constantia Kloof (Strubensvalley) nodes in Gauteng and the Observatory area in the Western Cape.

⁴The Commission relied on previous Tribunal decisions where the market for rentable office property was further divided into different classes, namely, Grade P, A, B and C. Grade P refers to top quality, modern space which is generally a pace-setter in establishing rentals and which includes the latest or a recent generation of building services, ample parking, a prestige lobby finish and good views or a good environment. Grade A refers to offices which are generally not older than 15 years or which have undergone major renovations, high quality modern finishes, air conditioning, adequate on-site parking, market rental near the top of the range in the metropolitan area in which the building is located.

- [12] The Commission thus concluded that the relevant markets are as follows:
- The market for the provision of rentable Grade A office property in the Bryanston and Epsom Down nodes;
 - The market for the provision of rentable Grade A office property in the Constantia Kloof nodes; and
 - The market for the provision of rentable Grade A and P office property in the Cape Town CBD and surrounding nodes within a 5km radius (including Observatory, Vredehoek, Woodstock, Rondebosch/ Newlands and the Waterfront)⁵
- [13] In its competition analysis, the Commission found that the post-merger market share of the merged entity in each of the relevant markets will be as follows⁶:
- 8.05% in Grade A office property in the Bryanston and Epsom Down nodes
 - 12.11% in Grade A office property in the Constantia Kloof nodes; and
 - 32.26% in Grade A and P office property in the Cape Town CBD and surrounding nodes
- [14] The Commission found that although the merged entity's post-merger market share will be 32.26% in the market for the provision of rentable Grade A and P office property in the Cape Town CBD and surrounding nodes, there are other competitors to which tenants can turn to should the merged entity unilaterally increase its prices.
- [15] The Commission further considered whether there is vacant space available for leasing in each of the relevant nodes. Based on the SAPOA Report and the Commission's desktop search, it found that the minimum vacant space available for leasing in each of the relevant nodes is as follows:
- 5754 m² in Grade A office property in the Bryanston and Epsom Down nodes
 - 10 160 m² in Grade A office property in the Constantia Kloof nodes
 - 22 392 m² in rentable Grade A and P office property in the Cape Town CBD and surrounding nodes within a 5km radius

⁵ The Commission considered the distances between the merging parties' properties in the Western Cape, finding them to be approximately 2km-5km apart. It further engaged with the merging parties' tenants to determine whether the merging parties' respective properties constraining one another. Although the tenants' submissions varied, the Commission did not find it necessary to conclude on the relevant geographic but chose to consider a broader geographic market encompassing a 5km radius.

⁶ In arriving at these figures, the Commission consulted the South African Property Owners Association Report ("SAPOA Report").

- [16] The Commission thus concluded that there is vacant space available for leasing in all of the relevant nodes in which the merging parties compete. The Commission further found that there are a number of new office developments that will increase the amount of office space available in both the Bryanston and Epsom Downs nodes and the Cape Town CBD and surrounding nodes.
- [17] The Commission accordingly concluded that the proposed transaction is unlikely to substantially prevent or lessen competition in any of the relevant markets.

Public interest:

- [18] The Commission concluded that there are no public interest concerns likely to arise from the proposed transaction.

Conclusion:

- [19] 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.



Yasmin Carrim

06 May 2015
DATE

Norman Manoim and Andiswa Ndoni concurring

Tribunal Researcher: Ammara Cachalia
For the merging parties: Vani Chetty, Baker & McKenzie
For the Commission: Reabetswe Molotsi