



In the large merger between:

Redefine Properties Limited



And

Hyprop Investments Limited



Panel : Norman Manoim (Presiding Member)
Yasmin Carrim (Tribunal Member)
Andreas Wessels (Tribunal Member)

Heard on : 15 July 2010

Order issued on : 15 July 2010

Reasons issued on : 27 August 2010



Approval

[1] On 15 July 2010, the Competition Tribunal (“Tribunal”) unconditionally approved the merger between the above-mentioned parties. The reasons for approving the transaction follow.

Parties and their activities

[2] The primary acquiring firm is Redefine Properties Limited (“Redefine”), a company incorporated in accordance with the laws of the Republic of

South Africa. Redefine is a JSE listed property loan stock company and has a number of subsidiaries. The Redefine group's property investments are diversified across all sectors of the rental property market, including the retail, office and industrial sectors in various locations countrywide. Redefine is also active in asset management as an in-house function within the Redefine group.¹

- [3] Redefine currently owns 33.3% of the primary target firm Hyprop Investments Limited ("Hyprop"), a company incorporated in accordance with the laws of the Republic of South Africa. Hyprop is a JSE listed property loan stock company specialising in prime shopping centres. Hyprop's property portfolio comprises mostly of retail space located throughout South Africa, which includes minor regional, regional and super regional shopping centres. Its portfolio however also includes office and hotel properties.
- [4] Hyprop does not control any firm, but has a non-controlling 37% stake in Sycom Property Fund Collective Investment Scheme in Property ("Sycom"). Sycom is a collective investment scheme holding its own property portfolio which is managed by Sycom Fund Manager. Given Hyprop's stake in Sycom, the Sycom property portfolio will be taken into account in the competitive analysis of the proposed transaction below.

Proposed transaction

- [5] In terms of the proposed transaction Redefine will acquire 12% of units in Hyprop from Coronation Asset Management (Pty) Ltd ("Coronation")². By virtue of this transaction with Coronation, Redefine will therefore increase its shareholding in Hyprop to 45.3% (see paragraph [3] above). Redefine however ultimately intends to acquire 100% shareholding in and thus sole control of Hyprop. The implementation of the aforesaid acquisition of units in Hyprop from

¹ Redefine performs all asset management functions for the Redefine group.

² A shareholder of Hyprop.

Coronation triggers a mandatory offer by Redefine to all Hyprop unitholders. Redefine intends to canvass Hyprop unitholders, in regard to the mandatory offer, with the objective of acquiring 100% of the Hyprop units which will give Redefine sole control over Hyprop. The proposed transaction has been notified on this basis, i.e. on the basis of Redefine acquiring sole control over Hyprop.

- [6] As a consequence of the proposed transaction, Redefine will also indirectly acquire Hyprop's unit holding in Sycom. Redefine will also acquire the rights to perform the asset management over the assets of Hyprop.

Rationale for proposed transaction

- [7] Since Redefine already has a significant stake in Hyprop (see paragraph [3] above) it has played an integral role in Hyprop's growth, acquisitive strategy and strategic management. Redefine sees this transaction as an opportunity to meaningfully increase its holding in Hyprop and ultimately to gain sole control over Hyprop. The merger of the portfolios of Redefine and Hyprop will result in a diversification of Redefine's asset base. According to Redefine, this transaction will furthermore result in immediate cost savings (including the reduction in costs resulting from having only one listed entity) and the possibility of further savings in future.

- [8] Coronation's rationale for the proposed deal is that it was able to obtain a good selling price.

Overlap between activities

- [9] According to the Competition Commission's findings, the activities of the merging parties (when including Sycom in the analysis) overlap in terms of:

9.1. Rentable office and retail space in the following areas:

- (i) Grade A office space in:
 - a. the Woodmead node in Gauteng;
 - b. the Sandton CBD node in Gauteng;
 - c. the Braynston node in Gauteng;
 - d. the Bedfordview node in Gauteng; and
 - e. the Century City node in the Western Cape.
- (ii) Grade B/C office space in the Rosebank and surrounding node in Gauteng.
- (iii) A small/minor retail space in the Shelly Beach area in KwaZulu-Natal.

Redefine and Hyprop each hold a 50% interest in the Southcoast Mall (a minor retail mall) in Shelly Beach. Since neither Redefine nor Hyprop controls any other minor retail properties in this geographic area we shall not deal with this market any further below.

9.2. The provision of asset management services.

Relevant markets

[10] We shall assess the horizontally affect relevant markets on the basis of the different classes of office and retail space in the local geographical nodal locations identified in paragraph 9.1 above.

[11] The vertically affected market is the national market for the provision of asset management services.

Impact on competition

Horizontal assessment

[12] In regard to specific grades of retail and office space in all of the above-mentioned overlapping nodes except the Woodmead node, the

accretion in the merged entity's market shares as a result of the proposed transaction is such that it does not raise significant competition concerns and/or the post merger market shares are below levels that raise significant competition concerns given that a sufficient number of competitors remain in these markets post merger.

- [13] In a worst-case scenario where the properties of Sycom are included in the analysis, the post merger market share of the merged entity is relatively high in the confined Woodmead node.³ However, competitive pressure is likely to stem from the surrounding nodes not included in this narrowly demarcated SAPOA⁴ node. The surrounding nodes are the Rivonia and Sunninghill nodes that fall within a 3-5 km radius of the Woodmead node (together said three nodes form the "Greater Woodmead" node). The merged entity's market share in the Greater Woodmead node will be below 24%. Moreover, customers in the Woodmead node contacted by the Competition Commission during its market investigation confirmed that they have the ability to switch to alternative rental space in the event of a rental increase.

Vertical assessment

- [14] From a vertical perspective Hyprop, according to the merging parties, premerger conducts its own internal asset management. Post merger the Redefine group will perform Hyprop's asset management function on an in-house basis. The merged entity's post merger national market share in the market for the provision of asset management services is below 15%. Given this relatively low market share and the fact that there are numerous players in this market, including Growthpoint, Old Mutual Investment Group, Liberty Life Properties and Sanlam Properties to name a few, we find that the proposed deal does not result in foreclosure concerns.

³ There is no overlap between the activities of the merging parties in this node if the Sycom property portfolio is excluded.

⁴ The South African Property Owners Association.

Conclusion

[15] We conclude that the proposed transaction is unlikely to substantially prevent or lessen competition in any horizontally or vertically affected relevant market. Furthermore, no significant public interest issues arise from the proposed deal. We therefore approve the transaction without conditions.

Andreas Wessels

27 August 2010

DATE

Norman Manoim and Yasmin Carrim concurring

Tribunal Researcher : Mahashane Shabangu
For the Merging parties : Vani Chetty
For the Commission : Alex Constantinou of the Mergers and
Acquisitions Division