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BGP formulates exit strategy for German residential portfolio

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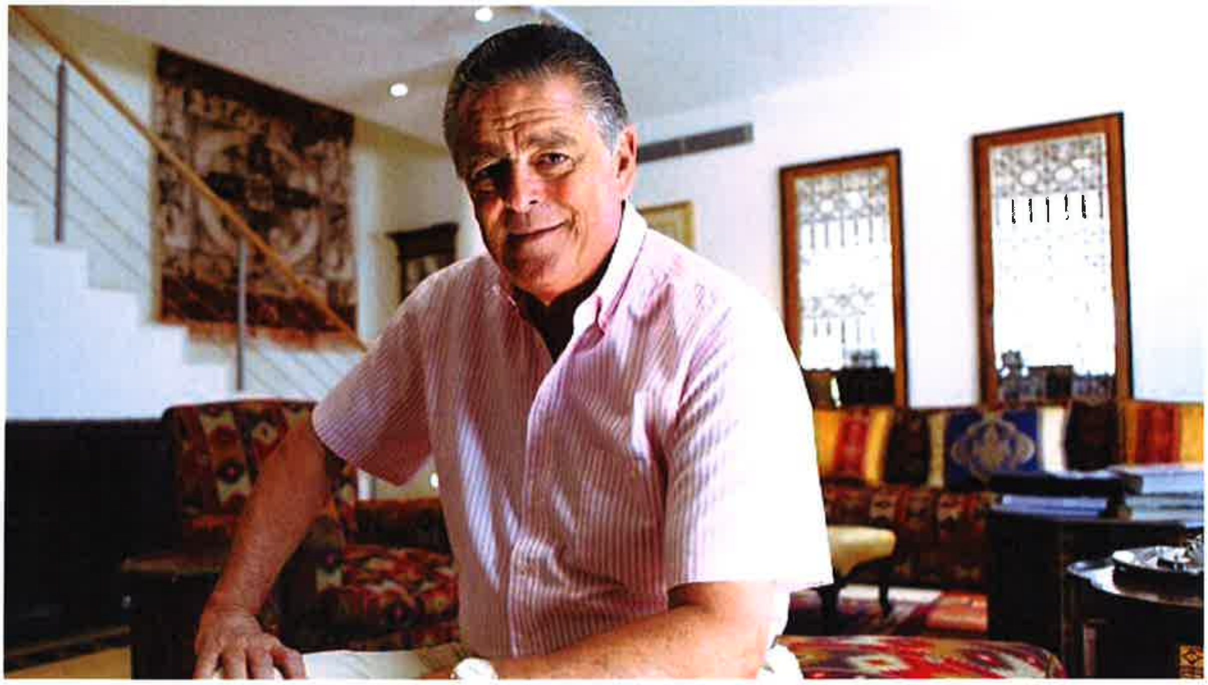

BGP chairman Rod McGeoch. 'To build up half a billion euros in net asset value has been outstanding'. Picture: Nikki Short Source: News Corp Australia

THE investment vehicle that GPT Group spun off in the depths of the global financial crisis to hold its stake in a series of European assets has appointed investment bank Lazard to advise on exit strategies that could see its €1 billion-plus German residential portfolio floated in Europe or sold off privately next year.

The move would be the finale of a decade-long odyssey in which GPT plunged into overheated real estate markets in Europe and the US, losing billions as the GFC hit, but potentially recovering some losses on the apartment buildings that drew it offshore.

The fund, BGP Investment, is in the early stages of formulating an exit strategy intended to see more than 58,000 mainly Australian shareholders receive a return by the end of 2015, six years after the group was spun off by GPT as the dire state of the heavily indebted European operations then threatened the listed real estate investment trust's own survival.

BGP was set up in mid-2005 as the holding vehicle for the GPT's thrust into Europe with investment bank Babcock & Brown.

The portfolio peaked at nearly €4bn, but this had shrunk to an asset value of €2.3bn when it was spun off in 2009. Its debt burden effectively put it hundreds of millions of euros in the red.

The group has now reported a €76 million ($105m) net profit and an increase in shareholders' equity and reserves to €467m.

"To build up half a billion euros in net asset value over this period has been an outstanding achievement by the team under difficult conditions," BGP holdings chairman Rod McGeoch said at the group's recent annual meeting.

"We believe that the company is now in good health with a promising future.

"We have engaged a leading investment bank to advise us on the most efficient and practical means to achieve a realisation, be it via a new listing or a trade sale."

BGP managing director Mark Dunstan emphasised the preliminary nature of the exit planning and said he was keen to ensure existing shareholders realised the highest returns possible.

BGP does not have a mandate beyond the disposal of its assets, but it could effectively continue by introducing new investors via a float in Europe. That could see the existing shareholders given a choice to exit.

Some may also wish to stay invested in Europe's property market, although if a trade sale was pursued they would likely exit entirely.

While BGP controls about €1.3bn of property, it is the once- controversial portfolio of German assets — which GPT came under fire for getting into in 2005, and that have been painstakingly overhauled and refinanced — that now form the bedrock of the group.

"The German residential market has continued to go from strength to strength," Mr Dunstan said, noting the group's portfolio was also doing well in its market against rival groups.

"With all the problems around the world, Germany is still seen as a safe haven and real estate within Germany is seen as a safe haven."

The BGP's fully owned German residential portfolio comprises almost 17,000 units across Berlin, Kiel, Rendsburg and Cologne.

BGP also has a 35 per cent stake in a joint venture with its 65 per cent partner Oxford Properties. This portfolio comprises about 8200 residential units in the Lower Saxony and North Rhine-Westphalia regions of Germany and is currently being sold down.

Together the portfolios are worth between €1bn and €1.3bn.

Apartments are a mainstream investment for institution across Europe and renting is a key part of housing markets on the Continent. Levels of home ownership in Germany are far lower than in Australia and the long-term rental market provides stable returns.

"The metrics are very healthy in Germany," Mr Dunstan said. He added that, as the German economy improved the cash flows from housing, portfolios were being more highly valued by investors.

BGP has also been an active manager, pouring capital into improving some properties for re-letting and exiting smaller holdings where demographics are weaker. The moves have paid off, as vacancy across BGP's portfolio has dropped from nearly 10 per cent to 7.6 per cent over the past three years while rent levels have risen and arrears reduced.

Mr Dunstan emphasised that much of BGP's recent focus was on bringing property, asset and facilities management in-house, which should help lift operational performance.

BGP last year refinanced the bulk of its residential portfolio through a Deutsche Bank-managed CMBS issue and is close to completing a refinance of the remaining portion.

These moves have pushed debt maturities on the apartments out to between 2018 and 2021 and debt costs are just over 3.5 per cent.

BGP has also offloaded troubled legacy assets, including its Dutch light-industrial portfolio in July, and is in talks to sell its €150m in German retail assets by the end of this year.

BGP RESIDENTIAL PORTFOLIO

• 16,864 German apartments

• In Berlin, Kiel, Rendsburg, Cologne

• Options include IPO or trade sale

• €12 billion of German apartment portfolios sold last year