The Australian

BGP Investment holds off on Europe asset sale

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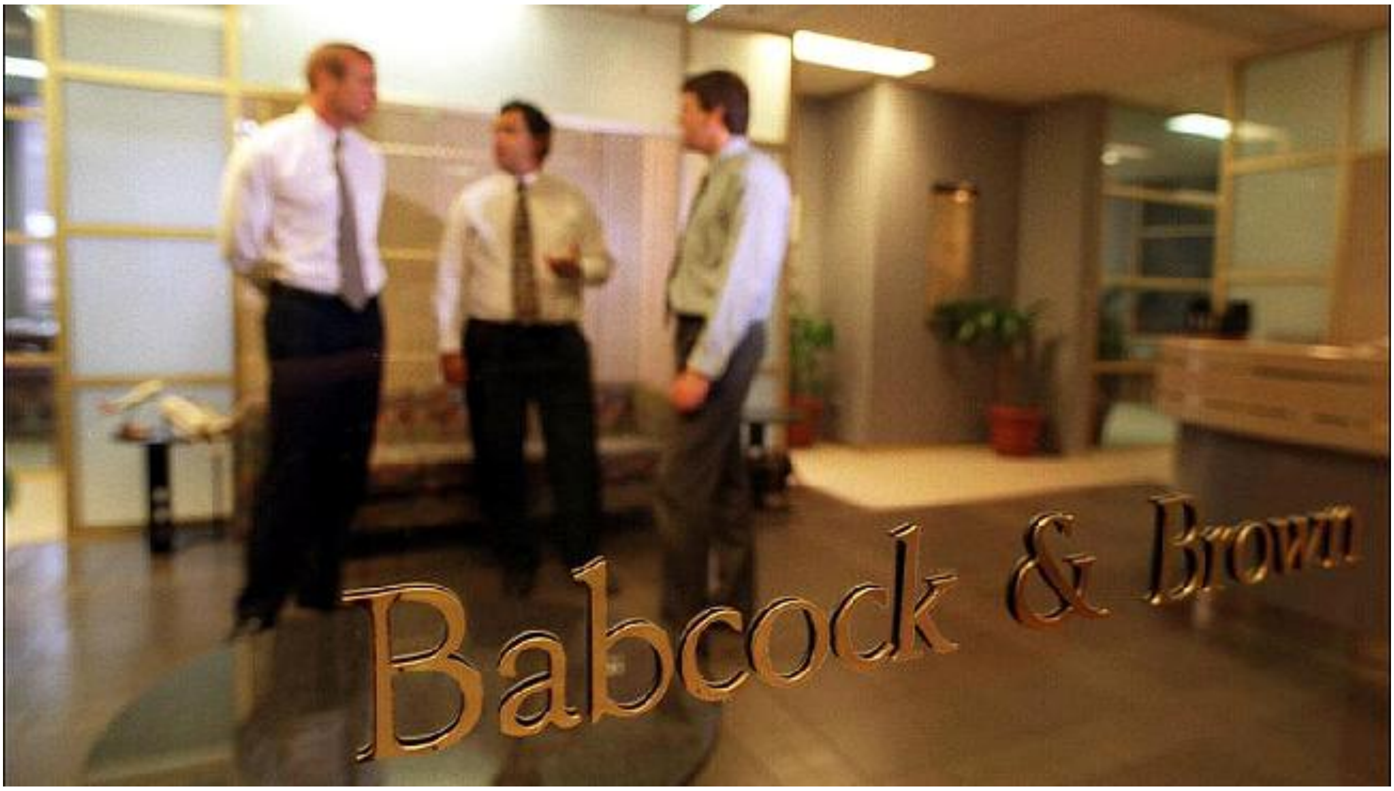

Better days: Babcock & Brown's headquarters in Sydney's Chifley Tower before the investment and advisory firm collapsed. Picture: Alan Pryke
Source: The Australian

GPT Group's disastrous European joint venture with the failed Babcock & Brown was the straw that nearly broke the camel's back when the global financial crisis hit.

Barely two months after becoming chief executive in May 2009, Michael Cameron jettisoned the business, which became BGP Investment, based in Luxembourg.

"BGP is now stable and can live. Almost certainly it will be able to deliver returns to GPT shareholders when all its assets are finally sold," said Mark Dunstan, its Australian chief executive. "We have hit the bottom and are probably on our way up. I don't see any equity yet, but the trend is good."

The company's cashflow is spent on its real estate and to pay down debt.

Mr Dunstan said when GPT spun off the venture, BGP was left with sufficient working capital to function until it was able to generate income.

"We have sold a quarter of our assets, mostly in peripheral countries, and a couple of good assets for E650 million ($862m)," Mr Dunstan said. The money was used to pay the banks.

The business still has E1.5 billion of debt, against assets valued at E1.7bn -- apartments (E820m), light industrial (E400m), retail assets (E300m) and a joint venture with Canadian pension fund Oxford Properties (E200m).

At the time of the split, it was envisioned that BGP would dispose of all its assets within three years.

Given the state of the European economy, Mr Dunstan said that was impossible and more time would be needed to sell the real estate.

"If we sell into this market today, there will be no equity return," he said, adding: "We are not the investment of choice for prime investors."

But there had been some "high opportunistic" offers for its portfolios, which were rejected.

"There is an intrinsic value in our assets," he said. "Anyone who buys it is also buying a platform. They will have to pay the right price for the business.

"I can't change the market, but I can make sure that the portfolio is in the best possible condition before being put on the market."

Asked if GPT shareholders would get their in-specie dividend, he said: "I am confident some money will go back to the 57,000 GPT shareholders. Otherwise, I wouldn't be doing this. I would have closed it down."

Mr Dunstan spent the last two years untangling the web of 300 special-purpose vehicles set up to own the company's assets, which include 30,000 residential apartments, mostly in Germany.

"There were many legacy issues, which nobody was aware off at the time when the global financial crisis was in full swing," he said. "We have cleaned out the company as well as can be expected. We've solved all compliance issues with governments and banking and financing issues."

GPT put up 90 per cent of the investment in the original joint venture. Babcock & Brown, which was placed in voluntary administration in March 2009, put in the expertise using its European real estate division.

Mr Dunstan said Babcock staff were motivated to buy assets. Between 2005 and 2007, the joint venture bought nearly E4bn of property.

"The biggest mistake at the time was that Babcock tried to form a vertically integrated business," he said.

"The problem was it was simply too far to supervise the operation from the head office.

"We found out far too late that this is an operational business, which was not really the core strength of Babcock & Brown."
