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GPT spinoff's $1.5bn turnaround

BEN WILMOTT THE AUSTRALIAN AUGUST 24, 2013 12:00AM

Jade portfolio residential units in Wilhelmshaven, Germany Source: Supplied

THE investment company that GPT Group spun off in the depths of the global financial crisis to hold its stakes in a series of European assets has made a 1 billion ($1.5bn) turnaround.

The group, BGP Investment, has shaken off its uncertain beginnings to emerge from the once-perilous European property and finance markets as a slimmed down owner of apartments and shopping centres focused on cities in Germany, including Berlin.

BGP was set up in mid-2005 as the European holding vehicle for GPT's thrust into the continent. The assets were bought in an international real estate joint venture with failed investment bank Babcock & Brown.

The portfolio of assets, worth about €2.3bn when it was carved out of GPT, peaked at nearly €4bn. But its heavy debt burden effectively put it about €600 million in the red.

BGP managing director Mark Dunstan said the group now had net assets approaching €400m. Its portfolio has been stripped backed to about €1.5bn of property, with a focus on Germany, as well as smaller holdings in France, The Netherlands and Denmark.

GPT's move to hive off its then unpopular European property joint venture in August 2009 by making an in specie distribution to its 59,600 security holders seems to have paid off.

The concentrated nature of the top end of the register - Singapore's GIC, a GPT investor, is a holder along with some major international players - gives BGP flexibility as it considers options ranging from selling off its assets, carving off portfolios, a whole-of-group trade sale, or even an initial public offering.

Mr Dunstan expects BGP's future to be decided later this year after it consults with major investors, including GPT, which has a 5.3 per cent stake. "All routes are open," he said.

Mr Dunstan and BGP chairman Rod McGeoch are particularly focused on getting a return for smaller investors who received BGP units as part of the 2009 split and have since waited for a return. Mr Dunstan noted that BGP did not have a mandate beyond the disposal of its assets, but the turnaround might see the group win a hearing from investors that had benefited and wanted to maintain an exposure to stabilised elements of European property markets.

While the value of investor holdings is now about 4c per security, or about 20c once GPT's security consolidation is taken into account, further upside may be generated as liquidity returns to global markets. Private equity players are also scouring Europe for the kind of properties held by BGP.

Four years into the turnaround, Mr Dunstan is focused on stabilising the platform, ahead of broaching options with major investors.

Right now he is focused on a major refinancing. BGP is putting the finishing touches on a €386m commercial mortgage-backed securities issue to refinance a maturing facility and some additional properties on better terms than in the wake of its split.

Babcock & Brown's exit from its half stake in BGP last year helped push its involvement to back of lenders' minds.

In a sign of its acceptance in European markets, heavyweight Deutsche Bank is arranging the deal and the financing vehicle will be listed on the Irish Stock Exchange.

Getting the deal done will give BGP more flexibility in how it deals with its portfolio as assets will be available with financing in place.

Mr Dunstan said this would expand the potential buyer pool.

"It's all about increasing our options so we can do an asset sell-down, a portfolio sell-down, deal with the BGP portfolio, or even sell it right at the top of the tree (at an entity level)," Mr Dunstan said.

He recalled that when BGP was spun off in 2009 there were doubts about its ability to survive, particularly as the collapses of major finance houses rattled investors.

The group sold its most toxic assets in sectors and markets that were later enveloped in Europe's banking and sovereign debt crisis. By mid-2010 the venture's worst assets had been sold and by the end of 2011 most of its problems were under control.

Mr Dunstan, a former cross-border capital markets banker, said fears of country defaults had been overdone, but BGP benefited from holding on to the bulk of its German properties, while largely exiting markets such as Spain, France, Sweden and Lithuania.

Income from BGP's €400m shopping centre assets tided the group over while it was repositioned as a primarily residential player with a €1.1bn apartment portfolio. It also has small industrial holdings.

"After the GFC we held on to the right sector in the right country," Mr Dunstan said.

Market instability forced BGP to extend the initial three-year period in which it had hoped to exit Europe.

But it has also thrown up the chance to avoid a fire sale of the remaining assets.

BGP's apartment portfolio spans across north and west Germany and it also holds units in Berlin.