COMPETITION TRIBUNAL
REPUBLIC OF SOUTH AFRICA

Case no: 75/LM/Oct04

In The Large Merger Between:

Momentum Property Investments (Pty) Ltd

And

Arnold Property Fund Limited

Reasons for Decision

Approval

1. On 17 November 2004 the Competition Tribunal issued a Merger Clearance Certificate approving the transaction between Momentum Property Investments (Pty) Ltd and Arnold Property Fund Limited. The reasons for this decision follow.

The Parties

2. The primary acquiring firm is Momentum Property Investment, a wholly owned subsidiary of Momentum Group, which in turn forms part of FirstRand Limited. Remgro and RMB Holdings hold 9,56% and 32,83% of FirstRand respectively.

3. The primary target firm is Arnold Property Fund ("A-Prop") and its major shareholders[1] are:
The CCPIT Trust – Tranche Two (13.98%)
Spearhead Property Group (13.43%)
The CCPIT Trust – Tranche One (12.92%)
Outward Investments (9.23 %)
Growthpoint Properties (7.17%)
North South Investment Fund (5.25%)

The transaction

4. A-Prop is purchasing certain properties from Momentum Property and Momentum Group. In consideration, A-Prop will issue units to the acquiring firm. As a result, Momentum Property and Momentum Group will control A- Prop.

Rationale for the transaction

1 As at 30 June 2004.

5. According to the parties, the acquisition of the target properties will provide a regular and greater rental income to the merged entity as well as a greater diversity of properties.

The Parties' Activities

6. FirstRand is involved in retail and corporate banking and insurance products. In the First Rand Group the following subsidiaries own property: Momentum Property, Momentum Group, Rand Merchant Bank, RMB Properties and Emira Property Fund.

7. A-Prop is involved in long-term investment in fixed properties. A-Prop owns a wide range of properties located in different parts of the country.

The Relevant Market

The Product market

8. Both parties are active in the property industry. The Commission evaluated the properties being acquired and matched them to the existing FirstRand portfolio. Broadly, the merging parties' activities overlap in the provision of office property, retail property and industrial property.

9. In previous decisions[2] the Tribunal accepted that within the office property segment, the different grades of office property (grades A, B, C and P) constitute different relevant product markets.[3] We have also stated previously[4] that within the retail property market, community shopping centres, neighbourhood shopping centres, local convenience centres, value centres and shopping malls, constitute different relevant markets.[5] Industrial property can be divided into light industrial and heavy industrial property.[6]

10. The Commission identified an overlap in the markets for Grade A, Grade B and Grade C office space, Neighbourhood shopping centers and Light industrial property.

The Geographic market

11. The property market is further segmented into different geographical areas or "nodes". All areas *within* that node compete with each other and are substitutable.[7] According to the

2 See Momentum Property Investments (Pty) Ltd and Bonatla Property Holdings Limited, case no. 34/LM/Jul03.

3 Office Property is graded according to the age of a building, the quality of the office accommodation, parking and other finishing touches to building with grade P being a top quality property and C an older without, for example, air-conditioning and parking.

4 See Primegro Properties Ltd and Growthpoint Properties Ltd, case no. 29/LM/Jun03.

5 Ibid. property is classified according to the available retail space per square meters, with for example regional retail property occupying 30 000 - 60 000 square metres to local convenience retail property occupying 300 - 1000 square metres.

6 Supra footnote 4.

Commission the parties compete in the following geographic areas:

- Grade A office space in the Cape Town CBD;
- Grade A office space in Rivonia;
- Grade B office space in the Cape Town CBD;
- Grade B office space in Randburg;
- Grade B office space in the Sandton node;
- Grade B office space in Westville;
- Grade C office space in Bellville;
- Grade C office space in the Bloemfontein CBD;
- Light industrial Property in Spartan, Midrand, Kya Sands, Durban North and Denver; and
- Retail shopping centres in Randburg and surrounding areas.

Impact on competition

12. With regard to the market for office space, post merger market shares in Grade A office space in the Cape Town CBD will increase to 17%. However, post merger market shares in the markets for Grade A Office space in Rivonia, Grade B office space in the Cape Town CBD, Randburg, Sandton node and Westville, Grade C office space in Bellville and Bloemfontein, Neighbourhood retail shopping centers in the Randburg node and Light industrial property in Spartan, Midrand, Kya Sands, Durban North and Denver, will all remain less than 15%.

13. The Commission is of the view that no competition concerns arise due to fact that the post merger market shares are very low. We agree with this conclusion.

Conclusion

14. We conclude that the merger will not lead to a substantial lessening of competition and therefore approve the transaction unconditionally. There are no public interest concerns, which would alter this conclusion.

<u>10 January 2005</u>

D Lewis **Date**

Concurring: N Manoim and Y Carrim

For the merging parties: A Le Grange (Hofmeyr, Herbstein, Gihwala)
For the Commission: E Mtantato, M van Hoven (Mergers and Acquisitions)

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7 See for example <u>Selcovest 23 (Pty) Ltd and Basfour 2776 (Pty) Ltd</u> **case no. 27/LM/Apr04**