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## Financial Mail: Property behemoth lives up to its name once more

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Turning around a struggling real estate portfolio valued at R157bn, spanning multiple sectors and three continents, is not a task for the faint-hearted. Yet the management team of Growthpoint Properties, the JSE's largest South Africa-based real estate investment trust (Reit), has done just that.

In a relatively short 18-month period, Norbert Sasse (group CEO) and Estienne de Klerk (South Africa CEO) have returned Growthpoint to growth.

The Reit is on track to deliver a respectable 6%-8% uptick in dividends for the year to June after management, earlier this month, confirmed its full-year guidance of a 3%-5% increase in distributable income per share and raised its dividend payout ratio from 82.5% to 87.5%. That comes on the back of a 3% increase in earnings for the 12 months to June 2025, marking the first time the company has reported meaningful growth since 2018.



Norbert Sasse: Group CEO (supplied)

Like that of many of its Reit peers, Growthpoint's earnings rebound has been supported by lower debt-servicing costs on the back of the 150 basis point interest rate cuts since

November 2024. But management has also made impressive headway in restructuring the portfolio by aggressively tweaking its asset recycling and capital allocation strategies.

Independent property analyst Keillen Ndlovu says the sale of the loss-making UK business, mall owner Capital & Regional, in late 2024 in a cash and share deal worth about R2.4bn was a bold move and an important catalyst in helping to restore investor confidence.

### **We've shifted to the front foot and can start hitting fours and sixes**

— Norbert Sasse

More recently, management announced several deals in the domestic space that further boosted sentiment. Ndlovu refers to stakes acquired in nontraditional sectors such as the Cape Winelands Airport and the Boston Hydroelectric Power Plant within the Lesotho Highlands Water Scheme.

Growthpoint also continues to pour money into Cape Town's V&A Waterfront, one of its biggest profit drivers. The R28.2bn mixed-use precinct, widely regarded as the country's most visited tourist attraction, drawing 25-million people a year, is co-owned with the Public Investment Corporation. For the year to June alone, Growthpoint has committed about R2bn to various capital projects under way at the V&A, including the redevelopment of the Table Bay Hotel, a luxury retail wing at the Victoria Wharf shopping centre and a new build-to-rent development of 162 apartments.

Ndlovu notes that management has significantly stepped up disposals. Recent deals include Growthpoint's sale of its 55% stake in Discovery's head office in Sandton for R2.3bn, as well as several older, underperforming office blocks and retail centres. In the 18 months to December, Growthpoint sold noncore properties worth R3.2bn (excluding the Discovery building), with a further R1.2bn of assets currently held for sale.



Growthpoint has committed about R2bn to various capital projects at the precinct (picture supplied)

The proceeds have been used to reduce debt — its loan-to-value ratio has shrunk from about 44% to 40% since June 2021 — and reinvested in properties that offer better potential returns.

Improving the quality of its South African portfolio via disposals and redevelopments is already bearing fruit through a positive knock-on effect on operational metrics. For example, vacancies in the directly held office, retail and industrial portfolio (excluding the V&A) have dropped from their peak of more than 10% in 2021 to 7.2% in December. It's the first time

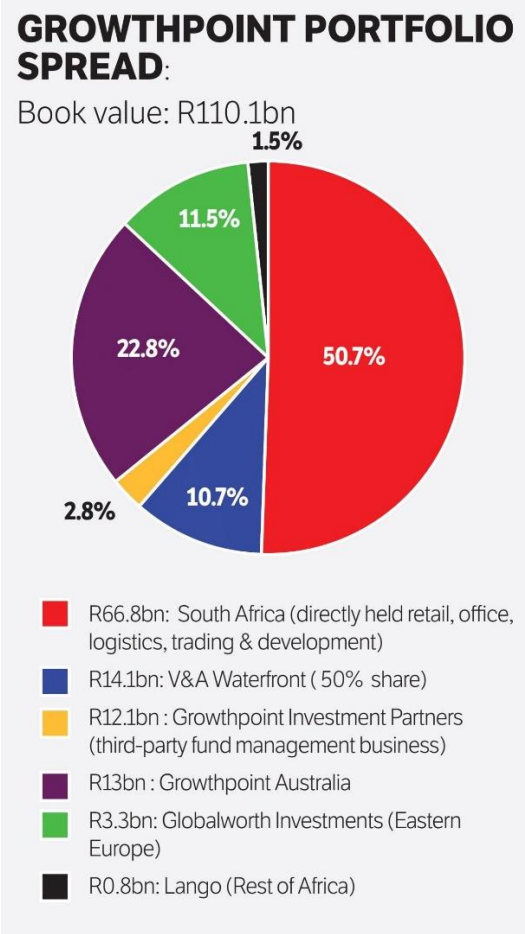
vacancies have declined across all sectors, including offices, which have been the problem child for several years.

Retail was a standout performer. In the six months to December, vacancies in Growthpoint's 31 local malls dropped to 3.2%, down from 5.7% a year earlier and the lowest level since 2015. Rentals on retail lease renewals also turned positive for the first time after the pandemic, with growth of 1.5% achieved in the six months to December. By contrast, the office and industrial portfolios reported negative reversions.

Sasse, who will hand over the reins as group CEO to De Klerk when he retires on July 1, tells the FM that Growthpoint is in its "strongest position in years" and can start executing projects and deal-making again, instead of merely doing damage control.

Borrowing a cricketing metaphor, he says: "We're no longer survival-batting on the back foot. We've shifted to the front foot and can start hitting fours and sixes."

But Sasse cautions that while Growthpoint has, in recent years, reduced its exposure to the underperforming office market from 48% to 42% of its South African assets, the group remains effectively overweight in the sector, particularly in Gauteng, where supply still comfortably outstrips demand. He adds that Growthpoint's offshore interests — Growthpoint Australia and Eastern Europe-focused Globalworth Real Estate Investments (GWI) — are also office-heavy.



Growthpoint portfolio spread: Book value R110.1bn (Debbie van Heerden)

"So, until we reduce our office exposure further, our earnings growth performance may well still lag that of some of our peers."

Meanwhile, institutional investors continue to pile back into Growthpoint. Notwithstanding the 12% drop in its share price since the war in Iran started at the end of February (in line with the rest of the sector) it is one of the best-performing Reits for the 12 months to the end of February, with a total return of 60%. Curwin Rittles, senior investment analyst at Metope Group, believes current share price weakness creates an attractive entry point for longer-term investors.

He says: “Two years ago, the investment case for Growthpoint was meaningfully challenged. Earnings momentum was negative across both its domestic and international operations, capital allocation decisions were being questioned by the market, and there was uncertainty about leadership continuity. These concerns were warranted, and the market priced the share accordingly.”

Rittles notes that since then, the operational outlook has shifted materially, translating into lower vacancies and improving reversions across all sectors. Management succession has been resolved, with the experienced De Klerk ready to replace Sasse at the helm, supported by recent executive board appointments, including José Snyders as group chief financial officer. He is the former CEO of Liberty Two Degrees.

Rittles says, more importantly, Growthpoint’s repositioning towards higher-margin, capital-light earnings streams has started to translate into tangible results. The picture looks decidedly rosier, he notes, adding: “The yield is compelling, the earnings trajectory has turned the corner, and the strategic repositioning under way supports a materially improved performance profile relative to what investors experienced in recent years.”

Evan Robins, portfolio manager at Old Mutual Investment Group, agrees that Growthpoint offers further upside despite the share already running hard. “Growthpoint is still fairly priced relative to the sector, in our view,” he says. Earlier this week Growthpoint was trading at about R16, placing it about 18% below its NAV of R19.45 and at a dividend yield of just over 8%. Still, Robins says there is some cleaning up that needs to be done, especially in terms of Growthpoint’s offshore investments, which have been “an unfortunate drag” on earnings.

The market will keep a particularly close watch on Growthpoint’s strategy regarding its minority stake in GWI. The share price of the London-listed Eastern Europe office play is down nearly 70% over the past five years, while dividends have dwindled over the same period. Growthpoint’s 29.6% stake in GWI was acquired at a cost of R9.3bn but is now worth only R3.3bn.

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