THE USE OF LISTED DEBT BY REAL ESTATE COMPANIES IN SOUTH AFRICA

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ABSTRACT

This research report aims to identify the factors which influence the decision for real estate companies, to utilise listed debt as a source of finance.

The researcher conducted a content analysis on the responses to 15 semi-structured interviews representing the five largest banks in South Africa, ten property listed companies, and the Bond Exchange of South Africa. The themes from this empirical data were used to confirm or reject the nine propositions arising from the literature review.

The research revealed that firstly, through the use of securitisation, it is possible to reduce the cost of debt finance.

Next, in terms of flexibility, a number of properties owned by a listed property company would be transferred into a bankruptcy remote vehicle during the securitisation process. This is done to enhance the rating of the issue. In order to obtain a higher rating, strict covenants are put in place. This, however, does not have to be a limiting factor, as some flexibility can be built into the initial structure.

Finally, since the banking sector has reduced their lending rates considerably, an uncovered corporate bond may not be viable at this stage. It is more viable to reduce the cost of funding through the issue of securitised / covered bonds.

DECLARATION

I declare that this research report is my own unaided work. It is submitted in partial fulfilment of the requirements of the degree of Master of Business Administration at the University of the Witwatersrand. It has not been submitted before for any degree or examination in any other university.

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DEDICATION

This research is dedicated to my wife, Priya Chathley, without whose support, this work would not have been possible. You have been so kind, patient and supporting. With love I thank you.

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Thank you to Max Mackenzie, my supervisor, for his wise counsel and advice and for his commitment to me and to this research.

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