

Hunt for yield sees SA-listed property lure US investors

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THE continuing search for yield is placing the JSE's R236bn listed property sector increasingly on the radar of US-based asset managers such as Vanguard, BlackRock and State Street.

South African heavyweights Redefine Properties, Hyprop Investments and Growthpoint Properties have all seen increased capital inflows from offshore investors this year.

Redefine CEO Marc Wainer said while some local fund managers have sold their listed property holdings down in recent months, offshore investors have not followed suit.

In fact, foreigners have increased their South African exposure as property share prices dropped and yields rose.

The listed property index shed 21% of its value between mid-May and mid-August but has since recovered about 10% of its losses. That places the sector on a forward yield of an average 7.4% versus 6.7% in mid-May.

Mr Wainer ascribes the increased interest in South African property stocks to the global "hunt for yield".

He said offshore investors like the South African growth story. "They can buy our stock at an initial yield of about 8%, which is attractive compared with the 2% they are getting in the US. In addition, SA is still offering income growth of 7%-8% a year,



Marc Wainer

which is way above most other parts of the world."

Redefine's offshore shareholding is touching 16%, up from 1.4% five years ago. The growth is more significant in rand terms if one considers that Redefine's market capitalisation has surged from R10bn to R30bn over the past five years.

Mr Wainer said while 1.4% of R10bn amounted to R140m five years ago, 16% of R30bn represented R4.8bn today. State Street, with a shareholding of 6.1%, is Redefine's second-largest investor after Stanlib.

But Mr Wainer said that offshore ownership of Redefine could easily increase to more than 20% if the rand was less volatile and the government provided more direction in addressing labour unrest concerns.

Growthpoint Properties, whose market capitalisation is at R47bn, has seen its shares in international hands increase sixfold, from 3% to 18%, over the

past five years. Growthpoint executive director Estienne de Klerk said 10% of Growthpoint's offshore investors are US fund managers. "American fund managers are particularly interested in SA-listed property as they tend to be more returns-driven than their European counterparts."

Strong growth in terms of new listings, mergers and acquisitions, which has seen the market capitalisation of the listed property index surge from less than R100bn to R236bn over the past five years, has also lifted the size and liquidity of the sector, which are key requirements for global fund managers.

Hyprop, worth close to R18bn, has seen its offshore shareholding increase from 10.3% in April to 13.2% at the end of September. Hyprop CEO Pieter Prinsloo said this was as a result of a weaker rand and higher yields, which had made it cheaper for foreigners to invest in real estate in SA.

The recent adoption of the globally recognised real estate investment trust (REIT) structure by the JSE may have helped create an awareness of the sector among offshore asset managers.

Coronation Fund Managers property analyst Anton de Goede said while it was early days, with many counters still in the process of converting from property loan stocks and property unit trusts to the new REIT structure, SA was expected to be the eighth-largest REIT market in the world.

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