JSE's 10 new property listings

http://www.fm.co.za/business/money/2013/06/20/jse-s-10-new-property-listings

The listed property sector has had a tumultuous couple of weeks. Rising bond yields, a volatile rand and a few big capital raisings have played havoc with share prices.

In the month to June 18, the index shed 12%, more than R20bn was wiped off the sector's market cap and forward yields climbed from an average 6,1% to around 7%.

The repricing of the listed property sector will make it less attractive for unlisted real estate companies and developers to bring their shopping centres, offices and warehouses to the JSE. Proposed listings may well have to adjust their initial yield offering upwards to lure enough investor support.

But that has not derailed the listing plans of, among others, Tower Property Fund, which is to make its JSE debut in July. The fund, which counts the trendy, mixed-use precinct Cape Quarter in Cape Town's Green Point and a Green Star-rated Sandton office block as two of its flagship properties, has been assembled by the Cape-based Spire Property Group.

Tower's listing is likely to be followed in mid-September by Sovereign Properties, a government-tenanted office portfolio that has been unbundled by Redefine Properties. Then come Nic Georgiou's Accelerate Property Fund and Atterbury Investment Holdings, this year's biggest and most anticipated listing, probably in the fourth quarter. Several others are expected to follow.

The proposed listings, if they all materialise, could add R20bn-R25bn to the sector's market cap, which has already increased nearly threefold over the past four years alone: from R77,5bn in June 2009 to the current R220bn.

The sector's metamorphosis has been driven partly by the global search for predictable and growing income streams, which has boosted property share prices over the past three years. The flow of money into the sector was accompanied by a rush of merger, acquisition and new listing activity. Since September 2010, no fewer than 12 new property counters have listed on the JSE.

This time around, however, new listings are being driven largely by the introduction of the new real estate investment trust (Reit) legislation to SA. Reits, which are replacing the old property loan stock (PLS) and property unit trust structures, were adopted by the JSE last month.

"The Reit structure is an enormous incentive for unlisted property players to bring their portfolios to the market, as it offers capital gains tax benefits and is a far more efficient listings vehicle than the PLS structure," says Andrew Brooking, director of corporate adviser Java Capital.

He says the average 30% premium to net asset value the sector is trading at, despite the recent pull-back, also represents an opportunity for unlisted companies to raise money via the JSE . He says these tend to struggle to have access to equity, and the JSE offers greater availability to cheaper capital.

Physical property is generally still trading at higher yields than listed property - typically in the 7,5%-9,5% range, versus the sector's 7%. So most unlisted portfolios should offer capital growth upside as they can come to the market at a discount to their existing counterparts.

The question is whether there is still enough appetite for listed property scrip to support new listings. "There is," says Brooking, "but only if [the new listings] offer either a value proposition or differentiate themselves from existing players in terms of the size, quality and type of assets they bring to the market." Listed property has proved its defensive nature after the global credit crisis, which Brooking says has helped to attract new money from both general equity fund managers and smaller retail investors.

A number of high-calibre management teams have entered the listed property space in recent years, which has further raised the sector's status as an investment class and boosted the sector's ability to attract capital and deliver superior returns.

Though new listings are generally welcomed, as they increase the sector's size, liquidity and choice, Brooking concedes that there is a limit to the quantity of capital available to support initial public offerings. "Most new listings will have to persuade fund managers to sell out of an existing stock to buy theirs instead. And fund managers will need a compelling reason to do so."

Brooking says book runners are therefore becoming picky about who they support. "We are turning down four out of every five potential new listings that come our way." Evan Jankelowitz, director of property asset manager Sesfikile Capital, confirms Brooking's views.

"New listings will have to offer us more bang for our buck, otherwise why risk your money on a new listing without a track record? If they don't give us a reason to back them we'll rather stick with established players with proven ability to unlock value." Jankelowitz says there's no doubt that the recent spate of equity raisings to fund new acquisitions - including the hefty R2,5bn placement by Growthpoint Properties last month - will crowd out some of the smaller proposed listings.

And recent share price volatility means that pricing has become more important than ever. Jankelowitz says investors won't be interested in new listings unless they offer a yield of at least 100-150 basis points more than their existing peers or superior income growth prospects.

The expertise of the management team will also be a decider in where investors place their funds. Jankelowitz says Sesfikile is not interested in supporting new listings if it's viewed merely as an opportunity for unlisted property players to cash out. "If you want our equity, you need to come along for the ride."

Stanlib head of listed property Keillen Ndlovu agrees, saying fund managers have become increasingly discerning in their support of new listings and capital raisings. He says the market doesn't need more of the same but welcomes new players that offer exposure to property sectors that are not already represented on the JSE, such as residential, hospital or storage funds, or those with a purely industrial focus.

Says Ndlovu: "There is still room for new listings provided they are appropriately priced, offer us exposure to something different and, most importantly, are sizeable, with initial market caps exceeding R1bn."