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Promising year for listed property

LISTED property outperformed cash, bonds and equities last year with total returns of 36 percent, to become the best performing asset class for the fourth consecutive year.

And this should be another good year for this sector, which can predict its short-term performance with good levels of accuracy as it is underpinned by rental income from contractual agreements.

Norbert Sasse, chairman of the Property Loan Stock Association and chief executive of Growthpoint Properties Limited, said investors could expect distribution growth from the sector to average between 5 and 8 percent.

He expects listed property returns of between 10 and 16 percent. "With tougher market conditions overall, companies that can manage vacancies and costs are better positioned to deliver for investors," says Sasse.

"Sectoral portfolio composition will also influence performance. Weak demand will continue in the office sector. However, retail and industrial property will perform well off a base of low vacancies that should remain stable."

Stanlib's head of listed property funds, Keillen Ndlovu, says the sector will deliver decent growth numbers matching or above inflation, protecting investors against inflation. "Listed property income should grow by more than 6 percent this year and improve to 7 percent next year," says Ndlovu.

Says Sasse: "Expect lots of corporate activity from the sector, especially smaller funds merging to gain critical mass and taking a defensive position in a market where larger funds are pursing aggressive acquisition strategies.

"Property acquisitions will remain robust given low interest rates, the forward yield of listed property sector and the availability and affordability of funding. Newer funds and funds with ambitions to list will be keen to snatch assets from the larger players."

Over the past 24 months, the sector experienced a spate of new listings. Although more companies are expected to join the sector, the number is likely to decline.

Ndlovu says the first residential listed property fund could start this year.

Equity raisings will remain prominent, but not to the same extent as in recent years. About R11 billion of equity came into the listed property space last year. In 2011, it was about R16bn.

"Companies raised equity to fund property acquisitions," says Ndlovu.

"Equity raisings and new listings were positive, increasing size, choice and liquidity."