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Promising year for listed property

SA's best performing asset eyes good times

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 year should be another good one 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 (PLSA) and chief executive of Growthpoint Properties Limited, says investors can 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.

"Our base case for listed property total returns this year is 9 percent. Our bull case forecasts 16 percent total returns and our bear case forecasts 2.2 percent. The biggest driver of changes in total returns is movement in bond yields.

"Listed property is a great diversifier. It produces a regular source of growing income and capital growth over time."

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."

Ndlovu agrees: "Newly listed property companies will continue their growth strategies. However, they are beginning to step on each other's toes as property stock is limited. Most listed property funds are playing in similar territories. Limited stock means that listed property companies will start to eye each other. This could lead to mergers and takeovers."

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."

Sasse says as interest rates remain low, pricing yields on the listed property sector will continue to be low, which is good for capital raisings and investors will continue to be interested in the sector.

In April REIT (Real Estate Investment Trust) legislation will be introduced.

Spearheaded by the PLSA, this legislation will provide tax certainty and align South Africa with global investment structures and established REIT markets including the US, Australia, Hong Kong, Singapore and the UK.

While adopting this best-of-breed international investment structure, the sector will also look beyond the borders for growth.

"Given that the local market is becoming increasingly competitive, with more listed property funds, some will start focusing more on opportunities outside the country with property acquisition and developments," says Sasse. "However, investment in developed markets will be tougher with the current weak rand. Also, most of these property markets rerated substantially, driving yields significantly below local ones. Investments in the US, UK and Europe are likely to be dilutive, but there are still some opportunities in Australia."

Ndlovu says although local funds have ventured into markets like Australia, UK, Germany and Romania, the focus is now shifting to the rest of the African continent. "Local property companies are targeting countries such as Nigeria, Ghana, Kenya, Angola, Mozambique, Zambia and Mauritius."