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SA listed property will keep a close eye on sovereign risk, quantitative easing and interest rates in 2014

South Africa's listed property sector can expect another interesting year in 2014 according to Redefine Properties CEO Marc Wainer, who predicts interest rates will be one of the most important underlying forces for the sector.

"The direction interest rates take could have a dramatic impact on the prices of listed property stocks and ultimately the yields at which properties trade," explains Wainer.

He cautions that 2014 could be a volatile year for pricing in the listed property sector given the uncertainty about the effects of quantitative easing, as we don't know what the US Federal Reserve's policy is yet, and the impact it will have on bond yields. "However, there still appears to be strong appetite from investors and from the bond market for South African property stocks," says Wainer.

But, Wainer notes that biggest threat to the South African economy in 2014 is the potential of a downgrade of South African sovereign risk. "Should this happen there will be a massive sell-off of South African bonds by international investors. The repercussions for the South African economy, the listed property sector included, could be dire," says Wainer.

When it comes to levels of activity in the listed property sector, Wainer believes property acquisitions and developments will be slow in 2014. "We can expect some consolidation between smaller funds as well as a few more listings, particularly those with an international flavour."

Looking at property market fundamentals, Wainer predicts retail property will continue to outperform other subsectors thanks to strong demand for space from South African and international retailers alike. On the other hand, an oversupply of offices will mean further underperformance from this subsector.

According to Wainer, the listed property sector will also continue to identify new opportunities 2014. "Increasingly South African property companies seek ways to diversify their investments into sub-Saharan Africa or other offshore jurisdictions," points out Wainer. "The yields available are better than in South Africa and there's strong appetite from investors for counters offering a rand hedge component."

Not only will the sector consider new territories, but also new investment categories. Wainer explains: "There is much exploratory work underway to improve non-lettable area income, as well as interest in new property subsectors like residential, health care and storage among others."

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