Listed property is expected to grow on the JSE, writes **Nick Hedley**

Reits may revive property sector

WITH 45 property groups now listed on the JSE, the sector has substantially grown in stature over the past decade and is expected to grow further thanks to favourable market conditions and the new real estate investment trust (Reit) structure.

Although still a small proportion compared to other stock markets, the local listed property sector now accounts for 3.8% of the JSE's total market capitalisation — a much larger number than a decade ago.

The latest milestone for the sector is the listing of Tower Property Fund last week, which was the first new property entity to list under the Reit structure.

Over the past three years, 16 property companies and funds have listed. This, along with Reit legislation, is expected to spur some consolidation.

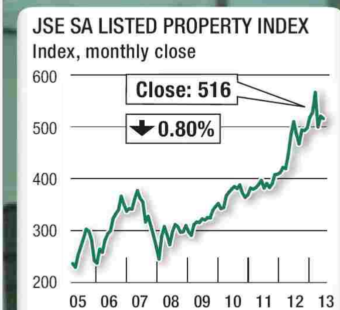
The internationally recognised Reit structure was adopted in SA in April, and many existing listings have already converted.

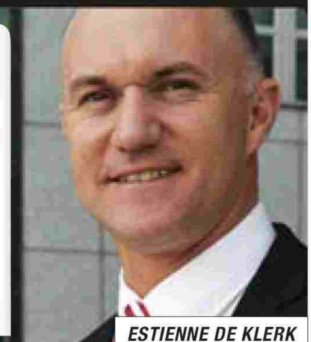
Its benefits include a simpler and more clear-cut tax regime for funds and companies, and the removal of capital gains tax.

Zeona Jacobs, director of issuer and investor relations at the JSE, said last week the sector "has enjoyed tremendous growth in the past 10 years and is one that South African investors understand well".

According to the JSE, the sector has grown more than fivefold over the past decade — from R61bn at the end of June 2003 to R328bn at the end of last month. Analysts expect the Reit structure to further grow the sector.

LISTED PROPERTY GROWS IN STATURE





ESTIENNE DE KLERK

Graphic: RUBY-GAY Source: I-NET BRIDGE

Growthpoint Properties executive director Estienne de Klerk said at the IPD Property Investment Conference last week that Growthpoint, which is the listed sector's biggest counter and is included in the JSE's top-40 index, has grown its market capitalisation from only R30m in 2002 to about R50bn.

With Growthpoint's rapid growth, its foreign investor base has grown from 3% in 2009 to about 17%.

But while SA's listed property sector has developed substantially, the sector's contribution to the JSE is still well behind more developed markets, where listed property makes up "closer to 10%" of overall stock markets, Mr de Klerk says. He says Reit legislation and a number of planned new listings will see continued growth in the sector.

Despite the relatively small weighting of listed property on the JSE, SA's Reit market is expected to be the eighth-largest in the world. Mr de Klerk says Growthpoint is about the 40th-largest Reit in the world, and about the 15th-biggest if US Reits are excluded.

Anton de Goede, fund manager at Coronation Fund Managers, said at the IPD conference that new listings will need to bring something new to the market, given that most recent listings have had similar focuses.

He says that while Reits remove tax uncertainties, the structure is not likely to be "a real game changer" with regard to foreign investment.

But foreign shareholding of SA's listed property sector is well below the shareholding of other sectors on the JSE.

With foreign ownership in the sector ranging between zero and 17%, the possibility for more foreign investment "does exist".

However, foreign investors are only likely to target the JSE's "top five or 10" listed property counters, as these stocks are the only ones offering sufficient size and liquidity.

Catalyst Fund Managers investment manager Paul Duncan says with Reits as the catalyst, there is scope for listed property to grow its proportionate size on the JSE.

But it is difficult to determine by how much. "There's still a lot of direct real estate owned by institutions and unlisted funds that — with the introduction of the Reit legislation — may look to list their vehicles," he says.

This is largely thanks to the capital gains tax relief that comes with being a Reit, as well as the advantages of being listed, such as access to funding.

On the debt markets, banks are also "comfortable" with Reits now — more so than with unlisted funds, says Mr Duncan.

He says Reits also "tend to be lower geared and so they are easier to borrow against".

Mr Duncan says the potential for increased foreign investment into local listed property is more a function of valuations than Reits. While Reit legislation eliminates some barriers to foreign interest, "South African listed real estate is not attractive relative to global listed real estate right now".

However, "when it does become cheap, at least now they can invest in a Reit rather than a property loan stock company."