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Higher yields and solid fundamentals make listed property a good bet, even in volatile times

Volatile bond markets may have caused some suffering for SA's listed property sector in recent weeks, but the opportunities for investors are still there, thanks to higher yields and sound market fundamentals.

Listed property prices decreased by 19 percent between 17 May and 24 June this year, something analysts say was a re-pricing in the face of changing global market dynamics.

These dynamics include US monetary policy decisions, uninspiring economics results in SA, and concerns about the Chinese economy.

The appeal of listed property is that it provides both a steady income stream and capital growth over time.

And, as Stanlib Head of Listed Property Funds Keillen Ndlovu points out: “Income is fairly stable and capital can be volatile. So listed property prices have changed but the market fundamentals have not.”

Bonds and listed property both generate income for investors, which is why they are closely correlated.

So when bond yields increase, listed property prices decline.

“It's important to note that in the medium- to long-term listed property is a better bet compared to bonds, because it offers growing income whereas bonds do not,” he points out.

Currently, says SA REIT Regulation and Taxation Committee Chairman and Executive Director of Growthpoint Properties Estienne de Klerk, average yields in the sector are about 7.3 percent and most listed property companies are expected to grow distributions between 4 and 12 percent.

While a longer term change in bond yields could have a negative impact on the price of listed property stocks, property fundamentals remain solid.

The sector has already raised more than R10 billion in capital this year, from existing companies and funds.

“All the equity raisings have been successful – and most have been oversubscribed,” adds Ndlovu.

And analysts expect several new listings to take place before the year is over.

As Ndlovu points out, SA's listed property sector has seen this type of volatility before: with a decrease of 26 percent between May and July 2006; and a 37 percent decrease between November 2007 and June 2008.

“Listed property markets have fallen dramatically before – in 2006 and 2008 – but they came back over time. Why? The fundamentals were in place and the income was still growing,” he adds.

The good news is that listed property in SA is arguably more liquid and tradable than ever, at least for the larger counters.

SA listed property stocks have risen 10.6% since 24 June 2013.

~ENDS~

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