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SA REITs outperform bonds and cash, and remain good value for investors

South African listed property delivered total returns of 8.4% in 2013, outperforming bonds and cash. Bonds returned a mere 0.6% and cash 5.2%.

Over the past 15 years, listed property has outperformed bonds by 13.3% per annum, a direct result of the asset class's ability to produce inflation-beating income growth.

SA REIT Association Chairman Norbert Sasse says: "Listed property performed to market expectations despite an extremely volatile year for the sector and produced income returns of 6.8% and capital returns of 1.6%."

Listed property is the top performer of the four traditional asset classes over the past 15 years, outperforming equities by 6.4% per annum. However, in 2013 equities outperformed listed property for the first since 2009, with a 21.4% total return.

Keillen Ndlovu, head of property at Stanlib says: "We believe that there is a place for listed property in investment portfolios, more so over cash and bonds. Listed property offers growing income whereas cash and bonds do not. This is one of the major reasons why listed property has outperformed cash and bonds over time and we expect this trend to continue in the medium to long term".

"2013 was a challenging and extraordinary year for the sector," explains Ndlovu. "Up to mid-May, listed property had delivered total returns of 21% for the year. But, the announcement of US Federal Reserve tapering Quantitative Easing triggered volatility across all emerging markets, and most interest rate sensitive instruments. The sector's gains were quickly eroded. Our bonds weakened dramatically. The rand wasn't spared either."

Importantly, Ndlovu points out, nothing changed on the ground in the listed property sector. "Fundamentals remained strong. Vacancies were stable. Shopping centres delivered positive turnover growth. Listed property companies continued to deliver distribution growth that met expectations and, in some instances, even higher than analysts' forecasts."

Reflecting robust investor appetite in 2013, the sector raised more equity than in previous years - around R18 billion worth. This is ahead of the R11 billion raised in 2012 and R16 billion raised in 2011. All existing REITs were able raise the equity they required, mostly oversubscribed.

So what can investors expect from listed property in 2014?

Sasse says the sector will continue its growth, increasing its representation on the JSE, albeit not at 2013 levels. "The end of the year brought a wave of consolidation, which should continue in 2014. We expect to see a few mergers from allied funds, while some smaller listed companies are becoming takeover targets."

Grindrod Asset Management's chief investment officer Ian Anderson says the listed property investment class remains a sound alternative to cash, long bonds and several equity investments in 2014.

Anderson forecasts property stocks will beat consumer price inflation by at least 5% over the next five years. "Equities could do the same, but won't necessarily perform as well as listed property," says Anderson.

Ndlovu notes the sector is trading at a one-year forward yield of 7,8%, assuming a 8.0% income growth forecast. "We expect income to play a bigger role than capital over the next year or two."

In 2013, REITs with offshore exposure benefited from the weaker Rand, posting results better than market expectations. Anderson believes there's still value in investing in local property stocks compared with offshore property stocks, particularly some of the smaller stocks that offer tremendous value.

Sasse adds that SA REITs with offshore holdings are in a good position to outperform in 2014. "With yields in some offshore territories better than local markets, and a soft Rand, the listed sector will be eyeing international investment opportunities."

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