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SA REITs set to explore new frontiers in 2017

R24.7 billion – this is the massive amount that SA REITs (real estate investment trusts) paid to investors in 2016, a year defined by the sector's offshore expansion, especially into Central and Eastern Europe.

The internationalisation of South Africa's listed REITs is expected to carry on in 2017 as the sector continues to pursue growth in other investment markets around the world.

The sector's multinational expansion began over a decade ago with early investments in the UK, Western Europe and Australia by the likes of Redefine Properties and Growthpoint Properties.

New Europe Property Investments (Nepi) then pioneered the SA listed property sector's entrance into Eastern Europe and joined forces with its Polish counterpart Rockcastle Global Real Estate. More recently, Redefine Properties, partnered with Echo Investment in 2016 in Poland and Growthpoint Properties partnered with Globalworth Real Estate Investment, the largest owner of office space in Romania. Then there's Tower Property Fund with assets in Croatia, and Accelerate Property Fund with investment in Austria and Slovakia.

Laurence Rapp, CEO of SA REIT, says: "The global growth of the sector should continue 2017 in light of local and global dynamics. We may even see SA REITs investing in more regions across the world."

Nepi Rockcastle, the proposed mega-merger of Nepi and Rockcastle, was announced in December 2016 and represents another sector trend, consolidation.

"The sector has certainly entered a consolidation phase as can be seen by several corporate actions announced recently. It is very likely that we will see even more in the coming months," says Rapp.

This includes the recent merger and acquisition deals between Redefine and Pivotal, and Fortress Income Fund and Lodestone REIT, as well as GemGrow Properties, the tri-REIT corporate action involving Vukile Property Fund, Synergy and Arrowhead Properties.

Rapp adds: "More small-cap funds with good assets are likely to be absorbed by the larger players, or join forces to create the critical mass they need to become more competitive. Driving this is the fact that opportunities for growth through asset acquisition in the local market have all but dried up."

With few assets for sale at suitable yields, Rapp points out that property development will play an important role in portfolio growth for SA REITs in the domestic market.

SA REIT's research from Bridge Fund Managers shows the sector proved to be a highly competitive investment in 2016, delivering total returns of 14.7% to investors, hot on the heels of bonds at 15.4%, and streets ahead of cash at 7.4% and equities at 2.6%.

SA REITs continued to attract good levels of new investment last year. The REIT sector raised over R26 billion in new equity during 2016, coming from new listings dividend reinvestment plans, mergers and acquisitions and secondary placements.

Among them was Liberty Two Degrees, which listed in December 2016, with stakes in iconic local property assets including Sandton City, Nelson Mandela Square, Eastgate and Melrose Arch.

Ian Anderson, Chief Investment Officer at Bridge Fund Managers, says: "Liberty Two Degrees represents the first new collective investment scheme in property listing in more than a dozen years. It should be a good test of the external management model, given investors will be attracted to its high-quality property portfolio." Almost all SA REITs are internally managed.

The SA REIT Association represents South Africa's listed REIT sector and its members comprise all listed SA REITs and represent nearly R400billion worth of real estate assets.

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