MEDIA RELEASE FROM SA REIT ASSOCIATION

23 April 2015

Beware the risks of unregulated property schemes!

Knowing how well an investment is regulated is a critical consideration when putting your hard-earned money into any investment, and property is no exception advises the SA REIT (Real Estate Investment Trust) Association.

“No matter how big or small your investment sum, knowing whether your are investing in a well regulated property investment, like a REIT, or placing your money in an unregulated property scheme, will help you understand what kind of risk you are taking,” says Mark Stevens, Chairman of the SA REIT Marketing Committee.

When property schemes are not regulated, their investors take on higher risks. In the past, there have been high profile cases where unregulated property schemes have run into serious trouble. It’s not easy to police these schemes, so it is important to have a strong regulatory environment in place.

“When an unregulated property scheme promises returns that seem too good to be true, they may well be. This should be a red flag. If they promise huge returns over the short term, you should take a cautious approach and scrutinise them very carefully,” says Mark.

The good news is the government recognises the risks of unregulated property schemes for South African investors too, and all signs point to a more regulated environment for these schemes in future.
SA REITs lead the way when it comes to investor confidence – they are well regulated and have a proven track-record of delivering strong returns.

SA REITs own, and often operate, income-producing property. They hold some of the best commercial properties in South Africa, and in some instances offshore. These include shopping malls, office towers, business parks, warehouses and even hospitals and hotels.

They are regulated by the JSE with strict corporate governance rules in place and best practice guiding principles as members of the SA REIT Association. This helps protect their shareholders.

Investors in this asset class receive returns in the form of distributions at least every six months – so they get paid out twice each year. They also benefit from the growth of a REIT’s share price over time.

Returns for the sector have been excellent. Listed property outperformed all other asset classes - bonds, equities and cash - in 2014. SA listed property has also comfortably outperformed all three other assets classes over 10, five and three years. And, it is continuing this strong performance trend so far in 2015.

REITs are also widely recognised for their contribution to sustainability, with the country's major REITs included on the JSE Socially Responsible Investment (SRI) Index.

"What makes this asset class, with its proven performance record and robust regulation, really exciting is that anyone can invest in SA REITs -- and it's easier and more affordable than you may think," says Stevens. "Even if you only have a bit of money to invest, you can take smaller stakes in South Africa's big property funds through stock brokers, via online trading and even by investing in unit trusts."

It is not only easy to own shares in REITs, but also to sell your shares. Stevens explains this is important because when things go wrong in an unregulated property scheme, it is difficult, if not impossible, to sell your stakes or shares.

"Do your homework before investing," urges Stevens. "Even when investing in REITs. While you can be confident that SA REITs are well governed, it's important to research your options before deciding where and how to invest, so you get the best results best for you."

The SA REIT Association represents the listed property sector in SA and regularly communicates the performance of the sector at www.sareit.com, where it also shares helpful information and news.

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