Listed property rolls with the punches

The year 2011 has been far from the most robust period for economies around the world. All sectors of business were rattled by a global slowdown in economic growth along with an on-going Eurozone crisis and listed property, although defiant was not untroubled.

Paul Duncan, investment manager at Catalyst Fund Managers, remarked that global market uncertainty had impacted local capital markets and SA listed property was not immune to the volatility that arose from the nervousness.

According to Catalyst fund managers and RMB credit research SA listed property had managed to outperform cash and equities slightly at 6.68% year to date (ytd), with cash and equities registering 5.24% and 5.14% ytd respectively.

This depicted a picture in which listed property had still managed to remain competitive relative to other asset classes throughout the year with only bonds (at 8.04% ytd) doing better.

On this note, Keillen Ndlovu head of property funds at Stanlib explained that the asset class's defensive quality granted it some resilience in uncertain times.

"Property is a separate asset class, it behaves differently from everything else."

He said this was especially evident when one observed what happened during the period of the highly volatile global markets and the US downgrade. "Equity was down over 12% at some point, property was only down 2%."

Duncan said as a whole however, "fundamentals in the direct property market remained challenging and this contributed to moderate income distribution growth".

Decrease in interest rates help support direct property prices

Evan Robins, fund manager of the Old Mutual SA Quoted Property Fund, said, when looking to what was expected in 2011, that while listed property prices had increased substantially, direct commercial property prices had, at that point, increased little. This was reflected in muted growth in property companies' portfolio valuations.

However, lower bond yields were gradually exerting upward pressure on direct property prices, starting with prime assets, which listed funds tended to buy.

The decrease in interest rates had helped support direct property prices despite the deterioration in operating conditions.

As a result of these factors, listed property companies were trading at a historically high premium to their direct property valuations of around 10%.

Consequently, property vendors would receive more money by listing their property holdings than by selling in the direct property market. This factor, as well as the rally in the secondary-quality property shares, was seen as some of the reasons why many unlisted portfolios, some of below-average quality, were attempting to list in 2011, according to Old Mutual Investment Group SA's (OMIGSA) Equity Research.

A number of new listings did happen to come into fruition during the course of 2011. Duncan highlighted the new listings including, Rebosis, Investec Property Fund, Vunani, Dipula A and B, Synergy A and B and Arrowhead A and B as notable.

Arrowhead A and B (AWA, AWB) was the most recent listing (December 9) and the company's CEO, Gerald Leissner seemed to put forth reasons which fell broadly in line with OMIGSA's research.

Unbundling aids property acquisitions

He said that the unbundling by larger funds had provided the opportunity to acquire property and service a section of the market, dealing with units outside high price areas, through their access to equity.

Property loan stock Dipula Income Fund listed on the JSE Limited on August 17, under the Real Estate Holdings and Development sub-sector.

Dipula boasted a diversified property portfolio, located throughout SA, with a retail bias to low income households, which were expected to outperform higher income households in terms of growth in the short to medium term.

Duncan also noted the Hyprop acquisition of the Attfund Retail portfolio and Growthpoint and the Government Employees Pension Fund's (GEPF) acquisition of the V&A Waterfront.

The acquisition worth R8.986 billion was seen as a key event in the property arena.

Growthpoint acquired 50% of the iconic V&A Waterfront property in Cape Town for 4.9 billion rand resulting in the country's largest single property transaction to date. Growthpoint and the GEPF, represented by the Public Investment Corporation Limited (PIC), purchased the property in equal proportions and took transfer in June.

Duncan identified outstanding companies in the property sector as being Capital, Resilient, Acucap, Sycom and Fortress.

"These companies delivered real growth in income and despite challenging direct market conditions are likely to do the same in 2012."