

SA likely to continue to gain from retail growth

A recent research report by JLL South Africa outlines the investment value of the South African real estate investment trusts (REITs), as well as their long-term potential in the current economic climate.



© carloscastilla – [123RF.com](https://www.123RF.com)

The report analyses the performance of the South African REITs from a capital gains perspective and a profitability perspective in order to highlight the drivers of investment returns.

"REITs convert a 'real' asset, being property, into a 'monetary tool' which can also be traded on the stock exchange and can be subjected to volatility and the effects of investor sentiments," says Zandile Makhoba, head of research South Africa at JLL. "Investors benefit from the capital gain due to the growth in the share price, as well as from the dividends derived from profit performance of the REIT. Hence the investment gains can be analysed from the drivers of capital gains and from the drivers of profitability."

US quantitative easing

From a capital gains perspective, the report discusses South Africa's experience of US quantitative easing (QE) in the past six years (which introduced access liquidity to the market) and how it has played a significant role in the performance of the REITs. The REITs experienced 13.9% annual growth during the period in which the US QE programme ran, setting the tone for a chain of events with weaker performances in the REITs when QE sessions ended, and recoveries whenever the programme was renewed.

With the introduction of the European Central Bank's QE programme in 2015, the report looks at the possible effects on the South Africa REITs. From a profitability perspective, the report reveals that although REITs have remained profitable, this profitability has not been balanced across the different trusts. The report compares the best and worst performers by profit growth to highlight the characteristics of the trusts that have delivered returns in the challenging economic environment.

A review of the REITs and the key driving factors that contribute to a profitable property portfolio reveals that office-heavy REITs produced the highest profit growth in 2014 with retail-heavy investments coming second. "Whilst consumer confidence has weakened from historical levels, South Africa is a consumption-led economy and is likely to continue to gain from retail growth, even if it shows marginal slowing during 2015," concludes Makhoba.

For more, visit: <https://www.bizcommunity.com>