

Offshore property outperforming local property sector

By [Joan Muller](#) 20 Dec 2013

South African investors are likely to make more money in offshore property markets next year than in their own backyards, which is prompting local asset managers to increase their weight in developed property markets.



Commercial property in South Africa is providing weaker returns than the international market. Image: [Warehouse Finder](#)

Alternative Real Estate fund manager Maurice Shapiro says global real estate investment trusts (Reits) do not appear to offer better value than their South African counterparts. As a result, the company recently reduced its Select Opportunity Fund's weighting to SA property stocks while increasing its UK, Canadian and Australian holdings.

Shapiro says while South African property fundamentals are generally still sound with earnings growth set to remain between 5% and 7%, the pedestrian economic growth outlook coupled to the potential for further rand weakness and an increase in interest rates are likely to dampen total returns from South African property stocks over the next 12 to 18 months.

Yields are improving

Global Reits have already outperformed South African listed property in both dollar and rand terms for the year to date, mostly as a result of a weak rand. According to the UBS Real Estate Investors index global listed property delivered a total return of 2.17% in dollars and 22.66% in rand between January and November. That compares with the South African listed property index's 14.21% and 7.32% in dollar and rand terms, respectively, over the same time.



Wilson Magee says overseas funds offer SA investors better returns. Image: [FA News](#)

Wilson Magee, the New York-based director of global Reits at Franklin Templeton Real Assets Advisors,

said in an interview with Business Day that while global property stocks have recovered from their 2009 low they are still trading marginally below 2007 pre-crisis peaks. He notes that the 15% correction in global listed property prices since May, on weaker bond markets, has created a temporary buying opportunity for income chasing investors.

Magee says global REITs now offer income yields ranging between 3% and 6%, with analysts expecting earnings growth to average a healthy 8% or 9% a year for at least the next three years. But Magee cautions that the "location, location, location" adage applied now more than ever, given the varying rate at which different real estate markets are recovering from the 2008 crash.

"The UK, which is showing signs of an acceleration in its economic recovery, some parts of Europe that are entering the early stages of a recovery, the US and Japan offer the best buying opportunities," says Magee.

"Europe has become more fragmented so one has to choose the countries and sectors well," he says. Magee says residential-focused REITs currently trade at an attractive discount to net asset value, are well regulated and offer solid and reliable income streams.

Strong earnings



Major residential and commercial property is offering excellent financial returns for investors. Image: [Five Star Alliance](#)

"Housing REITs in countries where property markets were decimated in 2008 and 2009 including the US, UK and Australia, also offer good potential," he adds.

While it is still early days for talk of a recovery in southern European countries like Spain, Italy and Greece, Magee believes these regions are likely to lure increasing numbers of value investors over the next 12 months.

He expects strong rental and earnings growth from US commercial property companies over the next few years on an acceleration in job growth amid very little construction of new office space.

Though property prices in Asia - Japan in particular - appear expensive, Magee said listed developers with large exposure to Japan's housing market should continue to offer attractive capital growth returns.

South African investors who want to cash in on the recovery in global real estate markets and a potentially weaker rand can do so through at least 10 rand-denominated property unit trusts funds. The JSE has also widened its offering to foreign real estate markets.

Five years ago, the JSE had only one option for investors interested in rand hedge property counters - the

former Liberty International but today JSE investors can choose from at least seven different offshore real estate funds.

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