

## Price volatility in property yields

The historically close correlation between South African listed property sector yields and yields maturity on long-term government bonds appeared to break down in June, according to Catalyst Fund Managers.

By Nick Hedley 11 Jul 2013



"Given the premium which listed property is now trading at compared with bond yields, this could lead to extended price volatility in the sector, which has seen erratic share price movements over the past two months," Catalyst said.

Analysts have said that the global "search for yield" over the past few years has produced a close correlation between bonds and listed property - which are both yield-bearing investments.

Catalyst said this week listed property yields firmed by 0.23% in June as the South African listed property index recorded a total return of 4.38%. However, the yield to maturity on the Long Term Government Bond Index weakened by 0.40% to end the month at 7.69%.

With listed property's yields having re-rated relative to the government bond index by 0.63%, the listed property historic rolled yield is now trading at a premium spread to the Long Term Government Bond Index yield of 1.25%", compared with the five year average of 0.18%.

### No real improvement

Catalyst said it was unlikely that the outlook for distribution growth from the listed property sector had improved significantly in order to "justify this new premium spread".

This was because property fundamentals had not improved significantly over the past few months and in the immediate future, income distributions may be negatively affected as historic funding structures roll over and repricing to higher funding base rates.

Catalyst said long-term government bond yields could firm by about 0.75% or alternatively the listed property sector yield could fall relative to the bond index by about 0.75% - meaning listed property share prices would under-perform.

"South African listed property pricing will not be immune to capital market volatility, but over the long-term total return from listed property will be driven by the income, plus growth in that income, over the investment horizon," Catalyst said.

### Window dressing

Meanwhile, Grindrod Asset Management chief investment officer Ian Anderson said the listed property sector declined by 3.4% in the week ended 5 July "on the back of higher global bond yields, a weaker rand and the unwinding of June's quarter-end window dressing".

Anderson said that as a result of last week's price weakness, the South African listed property sector was trading on a forward yield of 6.9%, about 90 basis points above the yield on a 10-year government bond.

"This leaves the sector vulnerable to further weakness in global and local bond markets and is likely to res in significant price volatility in the short term. The longer-term prospects for the sector continue to look good given an initial income yield above the upper-end of the South African Reserve Bank's targeted inflation range, as well as growth higher inflation levels," Anderson said.

Asset manager Alternative Real Estate said last week that as markets were expected to remain volatile for the time being. It said it had made changes to its Select Opportunity Fund in June that included the introduction of offshore property companies to its portfolio which "which does not attract yield-sensitive investors."

Source: Business Day via I-Net Bridge

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