

Results guidance muted, writes Thabang Mokopanele

Listed property strikes defensive stance

ALTHOUGH listed property shares have underperformed equities in general since the start of this month, their year-to-date return of -6,9% compares favourably with the -10,4% return on equities.

Coronation Fund Managers property analyst Anton de Goede says compared with other asset classes, listed property shares have exhibited defensive qualities since the beginning of the year.

"One major supporting factor for the sector was the continued strong distribution growth evident in many recent company results. Most of the results met market expectations, with the average year-on-year distribution growth still coming in at 10,7%," De Goede says.

But there was a wide variation in distribution growth, from as high as 19% to close to 0%, he says.

"Pressures from both a funding and tenant perspective are weighing down prospects for future distribution growth, resulting in guidance for future results being muted, in line with the global and local economic environment," De Goede says.

He says the weakness in listed property prices closely correlates to the performance of the equity market and has created the opportunity for income-seeking



Graphic: RUBY-GAY Source: I-NET BRIDGE

investors to increase their exposure relative to other income-yielding asset classes.

To manage the prevailing economic risks, however, De Goede says investors would need to differentiate between quality portfolios, management teams and transparency in conjunction with more certain rental flows.

De Goede says that, despite the prospects of lower interest rates, funding rates within the sector should remain fairly stable.

"Counter to lower interest rates, any newly negotiated borrowing would probably be granted at higher margins than that of the past two to three years, with margins having shifted out by between 100 basis points and 150 basis points."

De Goede says capital commitments have decreased as greenfield developments are becoming less viable despite building cost inflation coming down to single digits.

"Weak council infrastructure is making developments more costly as it involves the upgrade of these services as well.

"The focus has shifted to brown-field projects to upgrade and extend older shopping centres and office buildings," he says.

After many voiced their concerns regarding the office development pipeline, particularly in Sandton during last year, the concerns seemed to have fizzled away, he says.

There may be opportunities to acquire land due to higher holding costs, with rezoning becoming quicker and easier because of a lower level of activity.

Little desperation selling has been seen, although average asking yields have moved out to between 10% and 10,5%, albeit more in Gauteng than in the coastal areas.

With this limited opportunity to acquire properties locally, many funds are considering offshore opportunities as assets can be acquired at similar yields, the highest in the past 15 years, compared with local assets.

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