Please note that the commentary is for the retail class of the fund.

The listed property sector delivered a total return of -2.2% for the quarter, ahead of the All Bond Index's (ALBI) -3.8% but behind the All Share Index' (ALSI) 4.5% return. The correlation between bonds and listed property returned somewhat as global risk-off sentiment dominated. The South African 10-year government bond yield increased to 9.0% at end-June from 8.2% a quarter earlier while the forward yield of the South African listed property sector saw an increase to 9.7% from 9.3% at the end of March. The historical yield of the bellwether index[1] increased to 8.2% at the end of the quarter, from 7.5% three months earlier. This saw the historical yield gap relative to bonds widen to 79bps at the end of June from 70bps at end-March.

The fund's return of -2.5% during the quarter was behind the -2.2% delivered by the benchmark. The fund's performance over periods between three and 10 years compares favourably to peers and the benchmark. Value detraction during the quarter came from the fund's relative positioning in Resilient and its sister companies, which saw some recovery from the lows of the first quarter. These were enough to offset the value add coming from the fund's relative positioning in Capital & Counties, Hammerson, Growthpoint and Redefine. During the period, the fund increased exposure to Liberty Two Degrees, Investec Australia and Dipula A, while reducing exposure to a handful of names, including Growthpoint, Redefine, Investec Property, Hyprop and Vukile.

Equity issuance continued to trickle following the hiatus of the first quarter. Stor-Age did a small placement of R52m to fund a recent acquisition, while Dipula raised R790m towards its acquisition of the R1.2bn predominantly industrial acquisition previously announced, ahead of its targeted R600m. Fairvest raised R250m, also higher than the R200m the company was looking to raise while Hyprop also saw outsized appetite for its capital raise, which yielded R780m. In other activity, Equites saw good appetite for its scrip, eventually raising R800m from an initial target of R500m, while Spear REIT undertook a private placement of R118.5m. Meanwhile, Exemplar, the vehicle housing the McCormick property portfolio listed on the JSE without raising capital, while the listing of Hyprop's European vehicle, Hystead, did not go ahead owing to what management perceives to be sub-optimal market conditions for pricing.

On the corporate action front, Liberty Two Degrees announced a corporate restructure that would see its external MANCO internalized, while the put option that Liberty Holdings has will be done away with. As things stand, it is expected that the exercise will be broadly earnings neutral. In other activity, after almost a year post the merger of Nepi and Rockcastle that saw a dual CEO structure, the company announced that Alex Morar would remain the sole CEO going forward, while Spiro Noussis would remain an executive director (with an offer to be CIO made to him). In management changes during the quarter, Rebosis announced the resignation of its CEO, Andile Mazwai, who left his post with immediate effect. The company's former CEO, Sisa Ngebulana, returned to his old post on an interim basis, after which a more permanent replacement will be sought. Meanwhile, Texton announced that the vehicle housing the Wiese family holdings in the company had disposed of its stake to an entity owned by Marcel Golding.

Moving to acquisitions, following a month-long cautionary, Investec Property Fund announced the acquisition of a 43% stake in a Pan-European logistics portfolio for €75m. This transaction takes the fund's offshore exposure to 11%, and management has committed a total of €150m to the platform. Remaining with offshore acquisitions, Emira acquired its fourth retail centre in the US, taking the company's US exposure to 3%. MAS also acquired another shopping centre in Eastern Europe, this time a 55 000m2 shopping centre in Bucharest for €95m. In the meantime, Ingenuity announced the sale of almost R1bn of its Century City properties to Sanlam, the proceeds of which will be used to strengthen its balance sheet. Spear REIT also transacted in a Century City asset, buying The Estuaries building for R98m. Meanwhile, Nepi Rockcastle announced its entry into the Baltic region with the acquisition of a portfolio that included a 60 000m2 centre in Vilnius, Lithuania for €125m (7.0% acquisition yield). Its other asset is a 25 000m2 centre in Olsztyn, Poland, acquired for €65m (at an 8.1% yield). Still in the region, EPP announced the acquisition of Marcelin shopping centre in Poznan for €91.1m. The 45 000m2 centre will be part funded with a €45m equity raise underwritten by Redefine.

SAPOA released its quarterly office vacancy survey for the first quarter of 2018. Office vacancies increased to 11.5% in March 2018 from 11.2% a quarter earlier. Of the four office grades, B- and C-grade space saw improved vacancy trends, while P- and A-grade space experienced declines in occupancy. Three of the five metropolitan areas (Durban, Port Elizabeth and Johannesburg) registered declines in occupancies, while two saw vacancies improve (Pretoria and Cape Town). Growth in asking rents over the last 12 months recorded an improvement to 3.1% vs. 2.0% in the previous quarter. Office space under development amounts to 3.1% of existing stock (with 50.5% of this pre-let). A high degree of concentration remains – with 10/53 nodes accounting for 94% of all developments- 26.3% of this space is in the Sandton node.

The second results reporting season of the year took place during the quarter. No major surprises were delivered, though underlying metrics show that the economy is still undergoing strain. While vacancy trends are generally stabilising, renewals remain under pressure, with landlords choosing to maintain occupancy with some concessions on rentals. National retailers continue to put pressure on landlords regarding annual escalations, pushing for levels closer to inflation. Meanwhile, the Edcon group is looking to aggressively cut its GLA footprint across the country by discontinuing some brands while reducing the size of the Edgars boxes. While a handful of retail landlords have high single digit exposure to the group, the advantage they sit with is their exposure to prime boxes in good centres, where Edcon is unlikely to want to cut space, or if it did, the boxes are in such prime location as to attract replacements with relative ease.

Outside of sector-specific events related to the Resilient group of companies, the rest of the South African property sector had initially rerated in line with other geared plays on the local economy since the beginning of the year. However, recent global risk-off sentiment on the back of trade wars has seen an erosion of these gains. While the underlying economy remains challenged (as evidenced by negative Q1 GDP figures), capping DPS growth prospects to broadly in line with inflation in the short term, some good quality counters trade on appealing initial yields. As a result, we still see the sector providing double-digit total returns that should exceed those from cash and government bonds through the cycle.

Portfolio manager
Anton de Goede and Kanyane Matlou
as at 30 June 2018

[1] Index comprising the following counters: Growthpoint, Redefine, Hyprop, Vukile, SA Corporate and Investec Property Fund