Listed property and stocks to buy

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The South African listed property sector excelled among SA's Johannesburg Stock Exchange (JSE) listed companies with 14 listed property funds performing in the top 100 over five years - based on share-price growth and investor returns.

Catalyst Fund Managers say over the past 12 months to the end of October 2013 the SA listed property index delivered total returns of 18.47 percent outperforming cash at 5.18 percent, SA bonds at 4.14 percent and second only to equities at 26.23 percent.

The sector's top player in this category was Resilient Property Income Fund again this year ranked 38 with compound annual growth of 28.21 percent.

The Top 100 Companies survey acknowledges those listed companies that earn the most for its shareholders in share price growth with rankings determined as follows: the share price performance of every company listed on the JSE is measured based on hypothetical R10 000 invested in each over five years from October 2008 to end of September 2013.

Companies are then ranked according to their share price performance, as calculated by I-Net Bridge and the results were recently published in the Top 100 Companies survey in the Sunday Times Business Times.

According to Norbert Sasse, chairman of the SA REIT Association and chief executive officer of Growthpoint Properties, the results display the good defensive qualities of an investment in the sector, especially as this five-year performance, from 1 October 2008, represents results achieved since the global economic crisis.

He notes that the listed property sector is the most active on the JSE and has seen a considerable market capitalisation increase over the period from around R25 billion to over R256 billion, with two new listings in October 2013 alone attracting some R11.6 billion of capital to the sector.

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"The sector's strong showing among South Africa's top listed investments is reason for any serious investor to regard meaningful exposure to listed property, as an asset class, as essential," says Sasse.

Zeona Jacobs, director, issuer and investor relations at the JSE explains that there are 53 listed property companies across the Main Board and AltX with a total market capitalisation of just over R351 billion.

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Jacobs was speaking at the listing of the sixth property fund in 2013, Accelerate Property Fund, which listed on 12 December on the Main Board.

"Listed property has enjoyed tremendous growth in the past decade and a regulatory change this year saw South Africa adopt the globally understood REIT structure which further positions the exchange as a venue for property listings," says Jacobs.

She points out that more than 25 countries make use of the REIT model and these include the United States, United Kingdom, Australia, France and Belgium.

Sasse points out that South Africa is on track to become the 8th largest REIT market globally.

Investing in listed property and 2014 outlook

Against this backdrop, and the year almost over, Property24.com caught up with Marriott Asset Management to pick their brains on 2013 and 2014 expectations of the listed property sector.

Briefly comment on the listed property sector in 2013, what were the highs and the lows?

2013 has been a year where investors have seen glimpses of what the investment world might look like without quantitative easing.

The prospects of "tapering" in the US have created a particularly high degree of volatility in economies and asset classes. It has been a volatile 11 months for listed property in South Africa with returns as high as 7.4 percent in April and negative returns as low as 11.1 percent in May.

The highlight for the listed property sector in 2013 has been the conversion of the majority of Property Funds to REIT's – this has aligned South African listed property with International standards.

Looking into 2014, what can we expect from this sector?

Property has bond like characteristics where property yields tend to correlate with bond yields over the long term. With bond yields under continuous pressure, the outlook for property in 2014 isn't positive in their opinion.

SA listed property yields remain at unreasonably low levels with the current low interest rate policy of central banks providing support.

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Factoring in a reasonable expectation of long-term inflation and the current low yields, it is highly unlikely that listed property will provide investors with an acceptable level of income over the longer term.

"Our Property Income Fund is conservatively positioned for 2014 with 15 percent cash and 30 percent hedges (protecting capital)."

If I am looking to buy shares in listed property, what will be your top 3 stocks and why?

"We pay close attention to the quality of management, the quality of the portfolio and the liquidity of the security when making our investment choices.

We like Growthpoint Properties Limited – it is the largest listed property company on the JSE with assets valued over R55.7 billion, Emira Property Fund – it has 146 properties valued at R9.4 billion and a market capitalisation of R7.4 billion as of 30 June 2013 and Hyprop Investments Limited - SA's largest listed specialised shopping centre fund which includes 12 prime shopping centres across the country.

Hyprop recently bought 87% of newly formed firm, African Land Investments - a company focused on Sub-Saharan Africa and will invest in existing retail and commercial real estate assets in Ghana, Kenya, Mozambique, Nigeria, Uganda and Zambia."

Furthermore, the managers say in their opinion, the market isn't pricing in how illiquid the listed property sector can be.

Approximately 30 percent of the sector is held by collective investment schemes which are obliged to supply liquidity to investors in 24 to 48 hours.

A problem could arise if retail investors start selling property causing these funds to become forced sellers and this would result in significant price volatility, they add. – **Denise Mhlanga**