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Index's market capitalisation down 17%, or R40bn, from May's high point, writes **Nick Hedley**

Listed property on a slippery slope downwards

THE listed property sector has continued its bumpy ride with the sector's market capitalisation declining further since the major sell-off in May and early June.

Bloomberg data show the market capitalisation of the South African listed property index (FTSE-JSE Sapy index) has declined 17.1% since its peak on about May 20, despite gains made since last week Thursday. The decline represents almost R40bn being erased from the sector's market capitalisation.

At the front line of the volatility have been the larger, more liquid property stocks, whose shares can change hands quicker. The bulk of the price weakness has been attributed to shifting bond yields — as listed property and bonds are both income-generating investments and are closely correlated.

US Federal Reserve (Fed) chairman Ben Bernanke said on May 20, at the peak of the South African listed property market, that the Fed would reduce its monthly bond buying, or quantitative easing (QE) measures, in response to gains in the labour market. Along with a weakening rand, this added to a weaker South African bond market.

Stanlib investment analyst Ndabe Mkhize says while the past few trading days have shown "a slight bounce back" in prices, the outlook for listed property "still

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depends a lot on what bonds are going to do — and bonds are still volatile". Mr Mkhize says that at the time of the major price correction in May and June, analysts were unsure of the outlook for bond yields.

However, he says, "views have hardened now", with the bond market expected to continue to weaken, which would lead to further listed property price weakness. But the fundamentals in the sector remain strong and have shown improvements.

"Barring bond yields, we are actually seeing companies surprising on the upside," Mr Mkhize says. Listed funds that have struggled in recent years, such as SA Corporate Real Estate Fund and Emira Property Fund, have shown "credible turnarounds" this year. The results season thus far "has been characterised by companies surprising on the upside".

However, the price weakness will affect the ability of funds to raise capital. Mr Mkhize says funds will have to discount their shares "a lot more than they would have two months ago" when raising capital. In addition, unlisted groups "need to think twice before they list", especially if they do not offer anything new to the sector, Mr Mkhize says.

Ashburton Investments's listed property fund manager Lesiba Ledwaba says "we have seen continued price volatility which is in-line with bond yield volatility". He says "upward drifting bond yields" have dampened short-term listed property returns.

"We would expect the market volatility to continue as the bond market preempts the timing and quantum of the US Fed's expected tapering of current QE programmes."

Mr Ledwaba says the Fed "has indicated that tapering will largely be data dependent".

Economists at financial services group Barclays expect the Fed to announce a tapering in the pace of its monthly purchases at the federal open market committee meeting in mid-September. Barclays said yesterday it expected purchases to slow from October. "Based on our economists' unemployment projections, purchases will end completely in March 2014", although the Fed's own projections point to mid-2014.

Tower Property Fund CEO Marc Edwards said yesterday Tower was shielded from much of the volatility in the sector, thanks largely to the relatively small size of the fund.

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