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Returns on listed property likely to start slowing down

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Although listed property was the best performing asset class in the South African market, giving investors 36% in total returns, the cooling off in returns is inevitable.

Corporate activity in the sector is however expected to remain hot. Last year's returns were the second highest in the JSE property index's history.

The year saw strong performance in property capital values attributable to the valuation effect of the 132-basis-point fall in the 10-year bond yield; the difference between property yields and bond yields was virtually unchanged. Listed property normally tracks the bond yield.

Excluding the effect of the fall in bond yields, and the as-expected growth in distributions that was achieved, listed property prices did not appreciate last year and have not done so for the past three years. With listed property acting as a geared play on bonds, the fate of the bond market will be the essential determinate of capital movements in the sector over the next two years.

Old Mutual Property Fund fund manager Evan Robins says it is more likely that yields could rise from these low levels than fall (which also remains a possibility) over the course of this year.

This "gives us a slightly negative outlook on bonds", Mr Robins says.

"At MacroSolutions, our funds are moderately underweight nominal bonds," he says.

New Europe Property Investments (Nepi) was again among the top performers and Emira Property Fund's share price gained 2% after the fund reported distribution growth of 3.5% for the six months ended December. Although this was significantly lower than the sector average, it beat analyst expectations.

The fund's vacancy rate dropped from 10.2% as at June 30 last year to 7.8% as a result of new leases signed in the office and retail portfolio and the sale of non-core properties.

In line with the rest of the sector, Emira reported a drop in the weighted average cost of debt from 9.3% to 8.9%.

While Emira's industrial and retail portfolios registered positive growth in net property income, the office portfolio net property income declined by 9.1% as a result of negative reversions on new leases and rising vacancies, as well as an increase in municipal expenses.

Management expects a similar level of growth for the 12 months ended June this year, which was above analyst expectations.

Fortress Income Fund reported distribution growth of 10.9% for the six months ended December, resulting in growth of 5% for the A units and 44.6% for the B units.

Management expects a similar level of distribution growth for the 12 months to June this year.

Grindrod Asset Management chief investment officer Ian Anderson says the result highlighted the extent to which management adds value through acquisitions, dispositions and redevelopments.

"A further 10 properties were disposed of in the period under review, and a 50% undivided interestwas acquired in t he Flam wood Walk in Klerksdorp for R62.5m," he says.

"The company also increased its investments in Capital Property Fund, Nepi and Resilient Property Income Fund, and established a position in Rockcastle Global Real Estate Company, which listed on the Stock Exchange of Mauritius and the Alternative Exchange of the JSE last year," Mr Anderson says.

Arrowhead Properties announced quarterly interest distributions of 15c per A-linked unit and 12.1c per B-linked unit.

"The 9.8% sequential growth in the B-linked unit distribution suggests the company is very much on track to meet its 2013 forecasts of 10% growth."

Source: BD