BIZCOMMUNITY

SA firms starting to dip toe in UK property market

By Joan Muller

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US, European and Asian fund managers are apparently starting to bulk up exposure to UK property stocks to cash in on the weaker pound and negative sentiment about Brexit.

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While share prices of London Stock Exchange-listed real estate investment trusts (Reits) have recovered somewhat over the past few days, many are still down 20%-30% from where they were before Britain decided to leave the EU on 23 June. That places the sector at an attractive dividend yield of around 4%.

SA value chasers are also starting to dip their toes in the water. Cape-based Catalyst Fund Managers' offshore investment analyst Jamie Boyes says they have begun to take advantage of value buying opportunities in the UK. Despite uncertainty about the full impact that Brexit could have on property values and rentals over the next year or two, he says certain stocks now look attractive on a risk adjusted basis.

"Volatility will remain high until the uncertainty subsides but [in the] long term the UK will continue to be a major economy and London will still be a world-class city, where people want to locate businesses and people want to work, live and visit."

Resilient sub-sectors

Student housing and self-storage are two sub-sectors of the UK property market that Boyes believes will be more resilient than offices and retail should the UK go into a recession. The key risk for UK property owners is that corporates and retailers will cut back on expansion plans. A weaker sterling will also put pressure on retailers' margins and may affect their ability to pay rentals. "We expect a vacuum in demand for new space over the medium term, particularly for offices, but it will also be felt in retail and industrial space."

UK house prices are also expected to come under pressure because of a dip in investor confidence. Boyes says UK property owners whose balance sheets are overstretched may be heading for trouble if they are forced to sell some of their assets at a discount. "Fortunately most UK Reits have learnt from previous cycles. On the whole, balance sheets are generally solid going into this period of weakness. A number of companies have loan to values below 20%. This is a big difference from 2007/2008, when gearing levels were at 40% plus on average."

SA investors who are now looking to increase their exposure to UK real estate via the JSE without having to physically take rands offshore have at least 15 counters to choose from. Some, such as mall owner Intu Properties, London-focused Capital & Counties Properties (Capco), Capital & Regional, Atlantic Leaf Capital and New Frontier Properties, are close to 100% invested in the UK. Redefine International, MAS Real Estate and Texton Property Fund have only a portion of their assets in the UK.

Resilient Reit and Fortress Income Fund have partial exposure via UK-listed Reits such as Hammerson.

Buy now or later

The question for cash-flush investors is whether they should buy now or rather wait for a possible further pull-back in share prices. Former market darling Capco, owner of Covent Garden (a retail and leisure precinct) and one of the JSE's top-performing stocks last year, appears to be offering particularly good value at current levels.

The stock was down 33% in the first two weeks following Brexit, bringing its share price drop from its December record high of just more than R100 to more than 40%. At the R56 level where Capco was trading earlier this week, the stock offered a discount to net asset value of about 25%.

Anas Madhi, director of Meago Asset Managers, says investors who are prepared to sit out what could be an extended period of uncertainty and volatility are likely to reap the rewards, given the quality of Capco's assets and their central London location. Capco owns two prime estates - tourist landmark Covent Garden and Earls Court. The latter is a large tract of undeveloped land that is to be turned into one of London's largest new residential suburbs over the next few years. Madhi says Covent Garden may even benefit from Brexit if the weaker pound leads to increased foreign tourism spend.

However, Avior Capital Markets property analyst Adrian Jardine believes investors should be cautious as Capco's share price could fall further. "While it is tempting to have a stab at Capco at these levels, given the discount to net asset value, it's anyone's guess how deep capital losses may go and how long the downturn in the cycle will last."

Source: Financial Mail