Volatile bond yields dampen property returns

By Joan Muller

13 Dec 2013

The JSE's R249bn listed property sector has delivered a muted 7.3% total return for the first 11 months of this year, some way off the 17.92% achieved by the All Share index over the same period, according to figures released by Cape-based Catalyst Fund Managers.

Redefine has performed well with its international property portfolio worth R17bn. Image: Redefine

That is a reverse of last year when listed property was South Africa's best performing asset class with a total return of 36% compared with general equities at 27%.

Catalyst investment manager Paul Duncan said the returns generated by property stocks for the year-to-date have been dampened by ongoing volatility in bond yields, with property share prices tracking weak capital markets.

However, the drop in the rand's value played into the hands of investors who had bet on offshore-focused property stocks, which saw the gap between the sector's best and worst performers widen to a massive 88%.

Redefine International, whose £1bn (R17bn) portfolio is spread among the UK, Germany and Australia, was the JSE's biggest money-spinner for the year-to-date (January to November) with a total return of 78.34%.

The strong recovery in Redefine International's share price follows a successful debt restructuring exercise, which allowed it to aggressively bulk up its portfolio. Four major acquisitions were announced this year including three shopping centres in Germany for €189m and a fourth retail centre in Northampton, England for £84m.

Redefine International also started trading in its new guise as a secondary inward listing on the JSE in October, which no doubt further raised market sentiment.

The Grove shopping centre in Pretoria - one of the properties in Resillient's portfolio. Image: Resillient.

Other rand-hedge real estate stocks that performed well this year include London-focused Capital & Counties Properties. It delivered total return of 64.65% from January to November. That was followed by stable mates Romanian-focused New Europe Property Investments with an equally impressive 53.59% and Rockcastle Global Real Estate Company with 34.93%, both managed by the Resilient group.

Investors also favoured the higher-risk B units of property stocks with a split A and B unit structure, including that of hotel group Hospitality Property Fund, which staged a strong recovery this past year, Fortress Income Fund and government-tenanted office portfolio Ascension Properties. The B units of the counters delivered a total return of 63%, 29.46% and 18.39% respectively.

The sector's worst performing counters for the year to date were Dipula Income Fund (A units), Fountainhead Property Trust, the subject of a protracted takeover battle between Redefine Properties and Growthpoint Properties earlier this year, and Investec Property Fund.

Despite the pull back in property share prices since May, the sector has had an eventful 2013 in terms of new listings and merger and acquisition activity.

Three new funds made their JSE debuts this year: Tower Property Fund, Attacq and Investec Australia Property Fund - they added about R8bn to the sector's market capitalisation.

The Holiday in Sandton is part of the Hospitality Property Fund's current portfolio. Image Hospitality Property Fund.

Duncan said there had also been considerable capital raising in recent months, suggesting there was still much demand for listed property scrip on the back of an ongoing search for yield.

But he said he was cautious about the short-term outlook for listed property returns given expectations of continued capital market volatility, testing property market fundamentals and the current premium at which listed property is trading versus bonds.

At the end of November, listed property was trading at a historic rolled income yield of 6.91%, which appears expensive, versus the 8.03% yield to maturity on the long-term government bond index.