Property sector recovering from poor start to the year

By Alistair Anderson

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The JSE's listed property sector has not managed to maintain its run of the past few years of beating the broader all share index, but it has managed to stage a strong rebound from a disastrous start in January to give investors a small return for the year-to-date.

Property funds have battled to maintain their returns so far this year after out-performing the all share index for several years. Image: Michelle Meiklejohn Free Digital Photos

While the JSE all share index has risen about 12%, not including dividends (total return), the JSE SA-listed property sector index (Sapy) has given investors a small gain of about 2% for the yea- to-date. The new South African real estate investment trust (Reit) index has done about a percentage point better.

Sapy includes the 20 biggest property stocks listed on the JSE. It grew 8.4% last year. The Reit index includes all South African real estate investment trusts.

Investment management company Sesfikile Capital said the sector had bounced back well from a disappointing January.

"Despite a shaky start to the year, the Sapy delivered a respectable half-year performance of plus 6.3% (total returns including dividends). The sector managed to bounce back from a relatively poor start to the year, with January returns down 7.1%,because of a stronger bond market and impressive earnings releases," the company said in a report.

Analysts at the company had expected a gradual weakening of the bond market, enough to neutralise any benefit from earnings growth, but bond movements were actually highly volatile.

Growth struggles to gain momentum

"Ultimately, what did happen was anything but gradual; bonds spiked off initial tapering expectations in January and then reverted just as suddenly as global growth struggled to gain the desired momentum that central bankers were looking for.

"The final outcome was that bond yields only pushed up 0.25%, as opposed to the 0.5% that had been projected, which assisted the sector in reaching an acceptable 6.3% total return over the first six months," the analysts said.

Meago's Jay Padayatchi says Rockcastle's investment in Eastern Europe makes it an attractive prospect for investors. Image: Meago Asset Management

Old Mutual Investment Group's Evan Robins said the top five performing stocks in descending order during the period were Rockcastle, New Europe Property Investments (Nepi), Vividend Income Fund, Intu Properties and Synergy Income Fund's B units.

Rockcastle Global Real Estate Company has attracted investors because of its innovative pipeline of developments.

The company has pinpointed Poland as its major European target as it shifts to investing in the direct property market and away from owning equity stakes in property funds.

"Rockcastle's progress in sourcing opportunities in Africa was also attractive," said Meago Asset Managers Director Jay Padayatchi.

"Nepi is the only South African fund that has entered Eastern Europe. It is now the dominant investor in the Romanian shopping centre market. Even though this stock was a stellar performer in 2013, its fundamentals and growth outlook in Europe continue to impress," Padayatchi said.

Vividend had moved on its imminent takeover by Arrowhead Properties. In December, Arrowhead bought 31.7% of Vividend's linked units from Coronation Fund Managers, in a deal valued at about R430m. Arrowhead's Chief Operating Officer Mark Kaplan said in April it was negotiating for the remaining units.

Intu disappointed in 2013.

"Even though this is a rand hedge, it did not perform as strongly as its rand hedge property peers in 2013. Consequently, it has come off a very low base," Padayatchi said.

Source: Business Day via I-Net Bridge