

## Houses Outperform Listed Property

South Africa's housing market may well be in the midst of the worst slump experienced in 16 years, but residential property as an asset class has delivered better returns to investors this year than JSE-listed commercial property funds.

Latest figures from Cape-based Catalyst Fund Managers show that share prices of the 22 property stocks that make up the JSE's R90bn real estate sector, fell more than 15% for the year-to-date (January to November). Share prices of some counters including the likes of Madison Property Fund Managers and SA Corporate Real Estate Fund have tumbled more than 30%.

Even if the income yield of around 9% offered by listed property is added to the equation, listed property investors still made a loss this year. According to Catalyst Fund Managers, listed property delivered a total return (capital and income growth) for the year-to-date of -8,91%.

In contrast, latest figures from Absa show that house prices are still rising, albeit it only marginally. Prices were up 0,3% in November year-on-year, the lowest growth recorded by Absa since 1992. Absa Home Loans senior property analyst Jacques du Toit expects house price growth for the full 2008 to average 4%.

Meanwhile, FNB estimates gross income yields for residential buy-to-let properties at 8,1% per annum. If Absa and FNB's figures were used as a benchmark, residential property would have delivered a total return of around 12% this year, significantly better than the -8,91% total return earned by listed property investors for the year-to-date.

Whether residential property will again outperform listed, commercial property in 2009 remains to be seen, as the outlook for both sectors appears rather dim. Catalyst Fund Managers MD Andre Stadler says the general uncertainty of global financial markets will continue to drive volatility in the listed property sector. Residential property players also don't foresee any improvement in market conditions in the near term.

"The outlook for the residential property market towards year-end and into 2009 remains depressed," says Du Toit. Despite the recent 50 basis points interest rate cut, Du Toit believes that house prices are

likely to start falling by year-end or early next year. He doesn't expect a noticeable improvement in housing activity before 2010.

Alliance Group CEO Rael Levitt says only an extraordinary interest rate cut of 400 basis points or more, will be enough to lift the residential property market out of the doldrums.