

South Africa Property Beat Other Equities - 2008

South Africa's public property companies delivered the goods for investors, in stark contrast to most other equities. Property bosses crow.

South African listed property stocks continued to outperform local equities during 2008, despite the downturn in global financial markets and the sector's impressive resilience is set to continue in 2009.

SA-listed property outperformed SA equities by an impressive 18% when measuring total returns.

Norbert Sasse, Chairman of the Property Loan Stock Association of SA (PLSA) and CEO of South Africa's largest listed property company Growthpoint Properties Limited notes that many analysts advocate property's defensive qualities in turbulent markets. "The resilience of South African listed property stocks in the current climate may well be evidence of the defensive quality of South African listed property," says Sasse.

"The higher returns of SA property coincided with lower volatility in prices resulting in even-better outperformance on a risk-adjusted basis," explains analyst Leon Allison of Macquarie First South Securities. Allison explains that a low foreign shareholding is also a contributing factor to the lower price volatility.

"The sector's strong performance was driven by sharply lower bond yields since July, continued growth in distributions, relatively good visibility and near-certain double-digit yields underpinning its defensiveness," says Allison.

However, returns in hard currencies were less impressive due to the weaker ZAR.

Entering the new year, listed property seems cheap in comparison to bonds with growth of about 5% discounted based on an historical yield spread basis and only 1% to 2% based on a forward yield basis. Despite the head winds faced, Allison believes that 8% to 9% growth is still achievable in the next 12 months.

"Listed property yields of about 10% look attractive compared with 4% for general equities, while the sector also provides greater visibility of earnings," affirms Allison.

As with all other sectors of the South African economy, the SA property sector is expected to face tough market conditions in 2009, with an increase in tenant defaults likely, resulting in higher vacancies. "The good news is that, as a starting point, vacancies are still at 10-year lows, arming landlords with some bargaining power," notes Allison.

Sasse points out that solid property fundamentals underpinned performance in 2008 and they will remain strong in the coming year. "Listed property continues to make a positive impression on the South African investment landscape and the performance of the South African property sector is certainly encouraging at a time when sentiment has been uncertain," says Sasse.

Another challenge for the year ahead is the refinancing debt. Sector gearing stands at around the 25% mark, with most companies having smoothed debt maturity profiles and being comfortably within interest cover and gearing covenants.

The PLSA is the appointed representative umbrella body of all the property loan stock companies on the JSE-Limited. It is comprised of voluntary members with the weight of nearly all the PLS companies within the sector behind it.