

# Want Money? Invest in Property Funds

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This is according to the latest report by the *Property Loan Stock Association of South Africa* (PLSA), the representative umbrella body of the property loan stock sector comprised of voluntary members.

The report indicates that according to Morningstar, all five of the top-performing unit trusts in South Africa over five years are property funds and four of the five top-performing unit trusts over three years are also property funds.

Norbert Sasse chairman of PLSA and chief executive officer of Growthpoint Properties, the biggest listed property company on the Johannesburg Stock Exchange (JSE) by market capitalisation says the PLSA's mission is to promote listed property as an investment class.

Over five years, the top-performing unit trust was Prudential Enhanced South Africa Property Tracker Fund A with cumulative total returns of 121 percent.

The three-year rankings show that Prudential Enhanced South Africa Property Tracker Fund A again takes the top spot with cumulative total returns of 67 percent.

Stanlib Property Income Fund A came in a close second over both periods with cumulative returns of 119 percent and 64 percent, respectively.

The results showcase the consistently high performance of the listed property sector in both the long and short terms, says Sasse.

"Apart from the three-year or five-year horizon, the listed property sector has outpaced the All Share Index for six straight months in a row to August 2011," he says.

## **What are Property Shares?**

The recent market turmoil has led investors to seek alternative safe havens for their cash and in most instances, gold has come up trumps, says Frank Berkeley managing executive of Nedbank Corporate Property Finance.

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He explains that listed property investments are made up of commercial property portfolios that are wrapped into a single entity. These are listed on the JSE and can be invested in like regular shares and are managed by specialist property fund managers.

The portfolios contain a wide variety of properties that can include shopping centers, commercial buildings and warehouses. The investor can earn a share of the rental income in the short term and also benefit from the capital growth of the properties in the long term, says Berkeley.

Investors can buy or invest into different types of listed property including property loan stocks or property unit trusts.

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The property loan stocks offer the investor the option of purchasing a unit, which has both a share and a loan element to it.

The loan component pays interest to the investor from income received by the portfolio after expenses have been deducted. This can be a good investment for people looking for income generation, he says.

Property Unit Trusts (PUTs) are collective investment schemes as the money from investors is pooled into a fund.

Berkeley says PUTs are considered to have one of the lowest risk profiles of property investment vehicles and investing in them has a number of benefits.

Firstly, they provide an accessible vehicle for investment in prime, well-located property, available in low-denomination units, they are easily bought and sold on the JSE which obviously makes them easier to trade than physical property.

Investment in a PUT does not require specialised property management expertise because they are managed by professional highly regulated management companies, he says.

“The value of the shares that an investor holds will increase or decrease as the properties in the portfolio appreciate or depreciate in value.”

### **Benefits of Investing in Property Shares**

Berkeley says benefits to investing in property shares include a reasonable predictability of income with leases in place, good returns as income is taxable and volatility is relatively low in the share price.

Property also serves as a hedge against inflation over the long-term because rentals usually increase by at least the rate of inflation each year.

As with any investment, it is important that an investor does research and finds out the options that are available.

"The way you evaluate listed property funds is not unlike the way you assess the value of a unit trust.

He says it is important to look at the size of the fund, its underlying liquidity and the quality of the portfolio.

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In this instance, research should be around what makes up the portfolio and if it is of decent quality. Look at the amount of the properties in the fund to determine if the number is manageable and whether there is infrastructure in place to do so.

He says while the flow of income is fairly steady, an investor should know the numbers and the reliability of the income guidance, the quality of the earnings and determine if it's actual property income and where this comes from.

Berkeley adds that the quality of management is vital because an ethically run fund will go a long way to deliver the returns an investor hopes for.