Retail on top of the pile

By Stephen Cranston

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It was once an illiquid sector strictly for insiders. But now real estate has become a much more tradable sector and contains most of the top property assets in SA.

The best shopping centres and office blocks were once in the hands of institutions. The turning point was when Hyprop bought Canal Walk in Cape Town from Nedbank for R1,16bn. This is now the most valuable shopping centre in SA. According to the Hyprop 2010 results, its 80% share is worth R4,56bn, a 13% increase in value for the year, and a quadrupling in value over seven years.

Property shares do not (or should not) pay out capital gains as income but, unlike bonds, there is a steady increase in the capital value of quality shares such as Hyprop and Resilient as well as an increase in distributions (or dividends).

Hyprop's distribution increase this year was 8.8%, pushing the historical dividend yield up to 6.5%. The company certainly isn't looking spotless. Its Stoneridge centre in Modderfontein east of Jo'burg has 20% vacancies. Outgoing Hyprop MD Mike Rodel says the mix of tenants is being changed.

Rodel also acknowledges that the number of customers at the Mall of Rosebank has declined and admits a revamp is overdue. But he says it would be premature to upgrade the mall before it is ready to expand the centre once the nearby Nedbank Gardens building has been demolished and the mall can be expanded.

Merger

Hyprop will almost double in size once it merges with Attfund Retail, which has large regional centres in its portfolio.

It is a sweet spot for a specialist retail fund, as it has lower vacancies than offices and industrial property.

Growthpoint, a diversified fund which recently reported December interims, has a vacancy rate of just 0.6% in its top 10 centres, which include Brooklyn Mall in Pretoria, La Lucia Mall in Umhlanga and Constantia Village in the Cape.

The company is a good proxy for the market overall, with a huge R39bn portfolio. Its industrial portfolio has a 5.5% vacancy rate, though CEO Norbert Sasse says the bottom of the cycle was already in the winter of 2010. Arrears, for example, fell by half to R11,4m.

Growthpoint will change character once its purchase of 50% of the V&A Waterfront is approved, providing development potential.

International opportunities

There are a few overseas property investments available on the JSE, such as Redefine International, Capital & Counties and the Nepi portfolio. But Capital Shopping Centres (CSC) would appeal more to investors in Hyprop who are looking for a reliable and growing income stream. Its 3.6% yield might not look exciting, but if the rand depreciates against sterling the total return for shareholders could be substantial.

The UK property market is coming out of an appalling slump in 2008 and 2009, in which CSC's rental income fell about 8%, so 2% growth in 2010 was actually quite decent. And the vacancy rate is just 2.3%.

CSC owns 14 shopping centres in the UK. Its most recent investment is the Trafford Centre in northwest England. It cost £1,65bn, almost four times what Growthpoint paid for its half of the entire V&A Waterfront.

Trafford Centre is where the Manchester United team buy their aftershave and designer shoes. The centre's foot traffic increased by 9% in 2010 - unusually high in a mature economy and in spite of some stiff competition from Redefine's centre in nearby Wigan.

CSC is a quality portfolio with an attractive yield. But ultimately the randsterling exchange rate will be the deciding factor on this share.

Source: Financial Mail