Appetite for more specialist property listings likely

By Joan Muller

7 Jul 2015

Last month's successful debut of the JSE's first pure residential real estate investment trust, IndluPlace Properties, is likely to pave the way for more specialist property listings.

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The share price of the Arrowhead Properties spin-off rallied 11,25% in the first week after listing on June 19. IndluPlace owns a R1,6bn portfolio comprising 3600 flats let mainly to lower income earners and students at below R4500/month.

Until recently, Premium Properties, now merged with sister fund Octodec Investments, was the only stock among the JSE's 40-odd real estate counters to offer income-chasing investors part exposure to the rental housing market.

The listing of a dedicated rental housing fund, the JSE's third new property listing this year and 11th since April 2014, has been a long time coming. Arrowhead CE Gerald Leissner first tried to bring a pure housing play to the JSE in 2012 but that didn't materialise. At the time, Leissner battled to gather the scale necessary to get the support of institutional investors.

The general view was also that the risks associated with the affordable housing market - tenant delinquencies and onerous housing legislation - outweighed the potential returns.

But given the strong trading activity since IndluPlace's listing, coupled to the fact the prelisting capital raising of R400m was substantially oversubscribed, the market has clearly become more comfortable with housing as an asset class. In fact, Stanlib, which is the largest institutional investor in SA's listed property space, has taken a stake of around 8% in IndluPlace.

Stanlib's head of listed property funds, Keillen Ndlovu, says: "We like the residential story. Unlike the retail, office and industrial sectors, the affordable housing market still offers huge room for growth as well as diversification, strong and growing tenant demand, low vacancies and low arrears."

Ndlovu says IndluPlace listed at a forward yield of 8,2% (R10/share), which offered a sizeable premium to the sector's average 6,5% yield. Though the run in the share price since listing has pushed the yield down to around 7,3%, Ndlovu notes management has already identified a pipeline of accretive growth opportunities, which should support yields.

Avior Research property analyst Naeem Tilly believes there is huge appetite for funds that offer investors exposure to income-generating housing portfolios, typically rental flats in inner cities or close to universities where landlords are able to earn yields north of 10%.

"Income-dependent investors are hungry for something new and fresh, now that traditional retail, office and industrial sectors are reaching maturity."

However, some analysts believe that the IndluPlace portfolio is not yet big enough to pique everyone's interest. In recent years, lack of size and liquidity has meant that smaller, newer listings have generally tended to underperform the sector (see table).

Meago Asset Managers director Thabo Ramushu says the advent of a pure housing fund to the JSE is welcome, but IndluPlace is still relatively small, with a market cap of less than R2bn. "The counter is also 70% held by Arrowhead, which limits liquidity and tradability."

Ramushu believes there is demand for bigger specialist listings that offer investors diversification from the traditional multi-sector funds.

Market talk is that unlisted housing players including the likes of South Point and International Housing Solutions are already looking to bring their portfolios to market.

In addition, JSE-listed SA Corporate Real Estate Fund, which already owns a R1,3bn portfolio of rental flats (about 4500) in Johannesburg's inner city, plans to separately list its housing interests once its residential portfolio has doubled in size to around R3bn.

Other specialist property listings that could find their way to the JSE within the next 6-12 months are a self-storage fund, a sub-Saharan African offering and two specialist hotel real estate investment trusts - one by unlisted Tsogo Sun and the other by rand hedge counter Redefine International

In fact, Redefine International plans to list a separate UK-focused hotel fund on the AltX as early as August. Redefine International CE Mike Watters tells the *Financial Mail* that the dedicated hotel fund, named RBDL Investments, will list with three hotels (of which two are awaiting transfer from other owners). Also, a large portfolio of hotels worth a "few hundred million pounds" is currently under negotiation and will be acquired after listing.

RBDL will be led by former Southern Sun MD Helder Pereira, who has been running Redefine International's hotel portfolio in the UK since 2011.

Watters says the UK hotel sector is currently very buoyant, which has created attractive buying opportunities. However, only 20% of Redefine International's portfolio can be exposed to hotels (a self-imposed limit).

Currently, Redefine International owns nine hotels, mostly Holiday Inns around London, which already represent 20% of total assets.

The rest of Redefine International's £1,129bn portfolio is spread among retail and offices in the UK and Germany as well as a stake in Australian-listed Cromwell.

"We will therefore not be able to increase our hotel holdings. A separate listing is the logical route," says Watters.

Though the SA listed property sector is currently under pressure, Watters believes that Redefine International's hotel listing should be supported by local investors. "There still appears to be a definite appetite for international property."

Source: Financial Mail