

Slow demand hinders property fund listings

By [Alistair Anderson](#)

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Despite the expectation that specialised listed property funds would be the next big thing, they have struggled to gain popularity in SA.



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Few sizeable focused real estate investment trusts (Reits) have managed to come to market, given a weak economic environment and a lack of institutional quality stock.

The South African economy has barely grown over the past couple of years, which has been one of the factors that prompted South Africans to buy into offshore markets. Many property investors have chosen to invest in the UK or Europe, instead of in specialised funds locally. It will take some time before specialised funds gain critical mass and clout on the JSE, and fund managers will need logical reasons to invest in them.

"In the US, specialist funds tend to attract premium valuations, thereby allowing them to reduce their cost of capital. The rationale for this premium rating is simple - the management team is focused and should, therefore, extract the most shareholder value from a focused approach," Grindrod Asset Management chief investment officer Ian Anderson said. "While the same argument should hold true in SA, a more significant driver of relative value has been size and liquidity, particularly as companies started to enter widely followed global and domestic equity indices," he said.

"Apart from shopping centres, no other property specialisation would give the company the scale and size needed to enter one of these equity indices, and in so doing, give the company a significant cost of capital advantage," Anderson said.

One specialised property company that was well supported at listing was Stor-Age Property Reit. Yet the company listed at R9.89 in November 2015, and its shares are now trading at R9.59. Nevertheless, the company has rewarded shareholders.

Since listing as the first self-storage company on the JSE, in the four-and-a-half months to March the group's distributions to shareholders totalled R39m, translating into a distribution per share of 30c. Self-storage firms have grown tremendously over the past 10-20 years in the US. Time will tell if Stor-Age and nonlisted self-storage firms enjoy similar success.

There has also been a first residential-only listing on the JSE with the introduction of Indluplace Properties, which was spun out of Arrowhead Properties. Demand is strong across many types of residential property and should boost the likelihood of future residential-only fund listings.

Among the specialised property groups that may pursue a listing are student housing providers Respublica and CampusKey.

Meago Asset Management executive director Jay Padayatchi said he thought specialised property funds would be a natural progression for the listed sector.

"I think going offshore represents some level of specialisation. But domestically, we will see specialised funds eventually. We did not have residential funds in the past, and now we do. Investors are looking for opportunities, but some may wait for better market conditions before they take them," he said.

Source: Business Day

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