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Property management fees in spotlight

By ALISTAIR ANDERSON

SOUTH Africa's listed property sector has exploded over the past five years through a slew of listings, mergers and acquisitions and more capital raisings than any other sector on the JSE.

New non-property specialised investors have begun to buy into the sector too. Yet, in certain instances, corporate governance has been relegated to an afterthought.

Some commentators argue that property CEOs have, at times, been rewarded too generously for just doing their jobs, and that they added limited value to shareholders.

One of the most high-profile listed property listings is that of Liberty Two Degrees, which took place in December.

Liberty Two Degrees, which has about R10-billion in assets, exposes JSE investors to portions of various iconic malls such as Sandton City, Eastgate and Melrose Arch for the first time.

The real estate investment trust (Reit) has come under the microscope because it is being run by an external management company.

Globally, listed property companies have tended to internalise their management companies. This aligns shareholders' and management's interests.

However, Liberty Two Degrees' elected legal structure is as a collective investment scheme under the Financial Services Board (FSB) and therefore needs a separate management company.

About 10 years ago, investment group Barnard Jacobs Mellet released a report about corporate governance in real estate. It said overseas markets had moved away from external management companies.

It also argued that the introduction of Reit dispensation would "place pressure on companies to conform to the international norm of internal asset management and transparency".

Management companies are paid regular fees with a concern being that the management of these structures may make acquisitions for the sake of being rewarded instead of taking the long-term interests of shareholders into account.

Some investors feel that management at Liberty Two Degrees will be rewarded too much by their management company fees. The management is set to receive annual fees of 40 basis points times the sum of equity and debt.

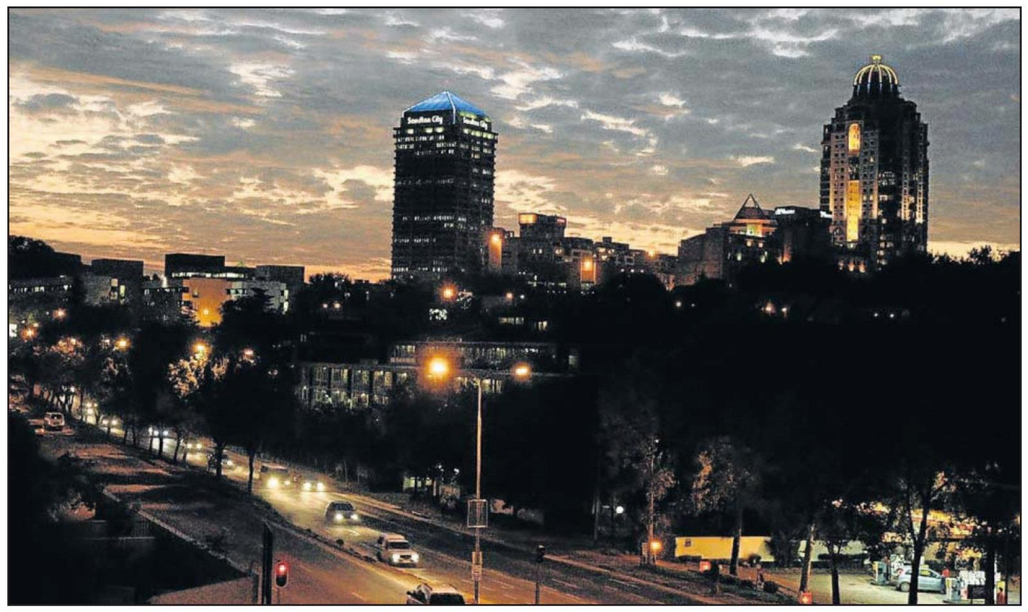
Evan Robins, listed property manager of Old Mutual Investment Group's MacroSolutions boutique, says this could be about R37-million. These fees would need to cover about R15-million worth of expenses.

By 2013, many South African property companies had adopted the Reit dispensation but a number were and still are externally managed.

These include Octodec Investments, Investec Property Fund, Texton Property Fund, Dipula income Fund and Delta Property Fund.

Robert Lewenson, head of ESG Engagement at Old Mutual Investment Group, says while some South African Reits and other property companies commit resources to environmental, social and governance concerns, as required by the King 4 Corporate Governance code, there is a large disparity between them, the leaders in the sector, and those Reits that commit very little.

"We need to see better disclosure and better adherence to environmental, social and governance [ESG] related performance targets," Lewenson says. — *BDLive*



INVESTMENT FLOOD: Non-property specialised investors have begun to buy into South Africa's burgeoning listed property sector, in which corporate governance has attracted criticism