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PROPERTY

From loss to recovery prospects

The time seems ripe for bargain hunters to bulk up on property stocks as a number of counters now look cheap

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The JSE's real estate sector has had a tumultuous start to the new year — the SA-listed property index slumped more than 16% in the first six weeks of 2018, which translates to a staggering loss in market cap of more than R150bn.

Though Resilient Reit and its sister companies Fortress Reit, Nepi Rockcastle and Greenbay Properties account for most of the value destruction, other rand-hedge counters have also been hit by what Meago Asset Managers director Anas Madhi refers to as contagion from the short selling that was targeted at the Resilient stable.

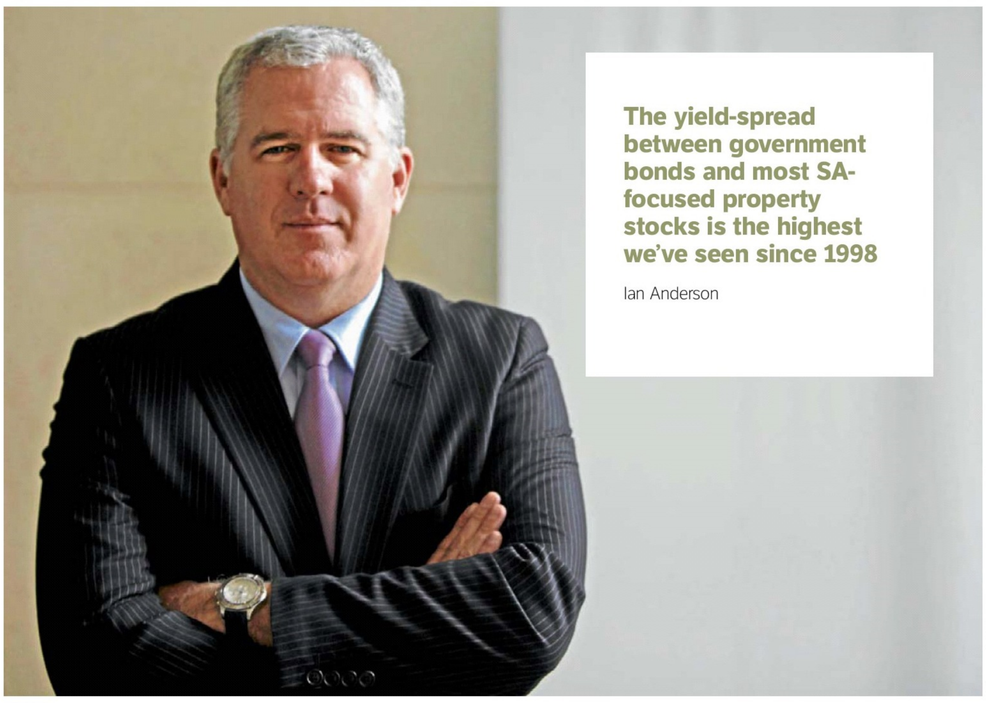
The stronger rand and higher interest-rate outlook in the UK and the US have also placed pressure on rand-hedge counters. Blue-chip offshore stocks such as MAS Real Estate, Intu Properties and Hammerson, for instance, have shed between 17% and 24% since the beginning of the year. "Several rand-hedge stocks that previously traded at significant premiums to NAV have rebased to highly attractive levels," Madhi says. He adds that the drop in share prices hasn't affected the income growth prospects of these counters.

But it's not only rand-hedge property counters that are now trading at discounts to NAV. Madhi says several SA property companies are also attractively priced and, in some instances, "ridiculously cheap".

No fewer than half of the JSE's 30-odd SA-focused property counters are trading at dividend yields north of 10%. That's despite the uptick in share prices already seen in some local stocks in the year to date (see table).

Ian Anderson, chief investment officer at Bridge Fund Managers, believes local property stocks, which have been largely out of favour for some time, now offer the best value in 20 years. "The yield-spread between government bonds and most SA-focused property stocks is the highest we've seen since 1998," he says.

Anderson concedes that the current operating environment continues to present challenges for SA-focused property companies. Many are battling high vacancies amid the continuous addition of new supply — offices in particular. But he says the earnings growth outlook



Tebogo Letsie

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Rosebank Mall

for local property stocks has improved given the changing political landscape under newly elected president Cyril Ramaphosa.

Also, local property stocks, unlike their banking and retail counterparts, haven't yet recovered on the back of improved consumer and business sentiment, probably because the market has focused on the woes befalling the Resilient group, though these are company specific and have nothing to do with the SA operating environment, Anderson notes.

Craig Smith, head of research at Anchor Stockbrokers, says local property counters could potentially outperform their offshore counterparts this year given attractive starting valuations, "especially if the new political administration implements a sustainable growth strategy that will address unemployment".

However, Smith cautions that vacancies won't be absorbed overnight. This means

MAJOR GAINERS
Share price movement
Jan 2 - Feb 16 2018

	%
Emira Property Fund	18.8
Indluplace Properties	11.5
Accelerate Property Fund	10.7
Rebosis Property Fund	10.3
SA Corporate Real Estate	9.6
Fairvest Property Holdings	9.5
Redefine Properties	7.5
Tower Property Fund	7.1
Arrowhead Properties	6.9
Growthpoint Properties	6.7

. . . & LOSERS

	%
Fortress Reit	-51.7
Greenbay Properties	-45.9
Nepi Rockcastle	-44.1
Resilient Reit	-43.9
MAS Real Estate	-24.0
Tradehold	-19.4
Investec Australia	-18.4
Intu Properties	-18.3
Acsion	-17.7
Hammerson	-16.9

Source: Anchor Stockbrokers

rentals will take time to improve and will rely on a continued uptick in business and consumer confidence.

The key question is: which SA-focused stocks offer the best recovery potential?

Madhi believes retail-focused property stocks are likely to be the first to reflect an improvement in consumer sentiment. Smith agrees, saying that mall owner Hyprop Investments looks particularly attractive at current levels of around R110. That places the stock, whose flagship properties include Rosebank Mall and Hyde Park Corner in Johannesburg as well as Canal Walk in Cape Town, on a dividend yield of about 7.2%.

"Hyprop has a proven track record and still has the best retail portfolio in the listed sector," says Smith.

Other SA-focused counters he believes could capitalise on an improved SA growth outlook include Arrowhead Properties, Rebosis Property Fund, Liberty Two Degrees, Vukile Property Fund and Emira Property Fund.

Emira, which two years ago embarked on a rebalancing exercise to reduce its exposure to the struggling office sector, recently announced 2.5% dividend growth for the six months ending December. That marks the company's return to positive dividend growth.

Importantly, Emira has significantly reduced vacancies – from 7% to 4.5% in the 12 months ending December – and appears to be back on track to achieve inflation-beating dividend growth in 2019.

Anderson favours smaller and medium-sized property companies, most of which he says are trading at substantial discounts to NAV and yields of up to 4% above that of government's benchmark R186 bonds.

He singles out Safari Investments, which owns a high-quality portfolio of township malls in areas such as Mamelodi and Atteridgeville, and Fairvest, whose retail portfolio caters for lower-income shoppers in high-growth nodes close to commuter networks. Safari is trading at a yield of 10.7% and offers inflation-beating dividend growth, while Fairvest offers a yield of 10.1% and distribution growth prospects of between 8%/year and 10%/year over the medium term.

"We also like the residential-focused listed property companies like Indluplace and Octodec Investments, which now offer initial income yields in excess of 11%," says Anderson. Though Tower Property Fund's share price has already rallied 14% off its lows following the recent release of its interim results to December, the company still offers an initial income yield of 12%.

"That's attractive given Tower's exposure to high-quality assets like the Cape Quarter in Cape Town, as well as significant upside from its residential developments in the Mother City," says Anderson. ✖