ornico KNOW HOW TO GROW

Publication		
FINANCIAL MAIL		
Page	**Date**	**AVE (ZAR)**
46+47	Thurs 31 May 2018	63298.75

PROPERTY

Offshore is the Reit choice

Property groups are spreading their wings abroad as opportunities in their home market are few and far between

Joan Muller mullerj@fm.co.za

A number of SA real estate investment trusts (Reits) have clinched big-ticket offshore deals in recent weeks, as the sector's search for hard currency exposure continues apace.

In May, two deals in excess of R1bn were announced: Investec Property Fund entered Europe for the first time through a R1.1bn stake in a pan-European portfolio of 22 logistics properties; and Vukile Property Fund bought a shopping centre in the coastal city of Torrevieja, Spain for R1.2bn.

The latter takes the value of Vukile's Spanish retail portfolio to nearly R6bn.

In April, sector heavyweight Growthpoint Properties announced it will invest up to R2.175bn in Warsaw-listed Griffin Premium RE, a pure Polish property play focused on office and mixed-use assets.

Growthpoint already has a R4.35bn exposure to the Romania office market via a 29% stake in London AIM-listed Globalworth Investments.

Retail-focused Hyprop Investments earlier this year invested R1.12bn to acquire a 90% interest in two Croatian shopping centres, bringing its retail property exposure in south-eastern Europe to more than R11bn.

Emira Property Fund, the first and only SA company yet to enter the US, recently bought its fourth retail park in that country, though Emira's exposure there is still fairly small at R386m.

SA Reits' offshore expansion trail has gained such momentum in recent years that about 40% of the assets owned by the 20 constituents that make up the SA listed property index (Sapy) are located outside SA, latest figures from Anchor Stockbrokers show.

That's up from less than 3% a decade ago when JSE investors had only one route to offshore real estate markets: UK mall owner Liberty International, now known as Intu Properties.

SA has had 10 years of very subdued growth across all property sectors. The European deal will support dividend growth while the SA property portfolio is under pressure

Nick Riley

Today, only two of the Sapy's 20 companies have zero offshore exposure – Arrowhead and Sandton City co-owner Liberty Two Degrees (see table).

Anchor Stockbrokers figures show that Europe is by far the most sought-after investment destination for SA property companies, with around 35% of the Sapy (by asset value) exposed to the region.

Others include the UK, Australia and the US but each of these makes up less than 5% of the Sapy's geographical spread.

Craig Hean, CEO of global real estate services and management group JLL in sub-Saharan Africa, has confirmed that SA property companies have become major players in European real estate – "so much so that South Africans now feature regularly among the top 10 investors in terms of quarterly capital flows into Europe".

Speaking at a conference on outbound capital hosted by JLL in Johannesburg last month, Hean said that since 2010 about $12bn (R149bn) has been invested by SA property companies in European real estate. A large chunk of the capital has gone into shopping centre acquisitions in Central and Eastern Europe (CEE).

In the first quarter alone, deals worth $1.2bn (R14.9bn) were concluded by SA investors in mainland Europe. He noted that the record capital flows from SA to Europe de-correlated with the investment cycle in SA, which has experienced a marked slowdown in real estate transaction volumes.

A key theme that emerged from JLL's conference is that the smart money is now targeting the European logistics sector (modern warehousing and distribution centres).

Nick Jones, regional director of industrial capital markets for JLL in Europe, Middle East & Africa (EMEA), said investment into the European logistics sector doubled from 2016 to around €40bn in 2017. Market growth has been driven by the structural changes in the retail sector, the rising e-commerce trend and increased global trade.

Europe still has a low penetration of online shopping, unlike the US and UK where the sector is quite mature and online sales already represent about 20% of total sales.

In Europe, e-commerce is still half of that at an average 10%, according to Jones.

"The US has 10 times more logistics space per capita than Europe. Last year, 30% of the industrial space take-up in the UK was by e-commerce businesses. In Europe, it is a lot lower so there's still a lot of growth to come," he said.

Unlike the US and UK, the European logistics sector has also experienced hardly any rental growth over the past 10 years.

However, the sector has low vacancies and a shortage of modern logistics properties is becoming evident, which is starting to exert upward pressure on rentals.

"Very little new stock has come on stream in the past few years so there's a demand squeeze developing in France, Germany, Spain and the Netherlands," Jones noted.

Investec Property Fund CEO Nick Riley echoed a similar sentiment at the company's recent annual results presentation, saying that the fund's acquisition of a 42.9% interest in a pan-European portfolio of 22 logistics properties last month was driven by the rapid growth of e-commerce across Europe.

"We are very bullish on European logistics and we like the sector's macro and micro story," said Riley. Unlike many of its SA peers who have chosen the CEE region as their key offshore destination, Riley said Investec Property Fund prefers major Western European geographies, which are both liquid and transparent.

The logistics portfolio in which the fund has acquired a stake is managed by European-based Ares, which has $110bn of assets under management.

Nick Riley: Bullish on European logistics

PROPERTY SECTOR'S OFFSHORE EXPOSURE

Sapy counters by asset value

Company	Local (%)	Offshore (%)
Accelerate Property Fund	88	12
Attacq	85	15
Arrowhead Properties	100	0
Emira Property Fund	91	9
Echo Polska Properties	0	100
Equites Property Fund	72	28
Fortress Reit	51	49
Greenbay Properties	0	100
Growthpoint Properties	76	24
Hyprop Investments	78	22
Investec Property Fund	92	8
Liberty Two Degrees	100	0
MAS Real Estate	0	100
Nepi Rockcastle	0	100
Redefine Properties	80	20
Rebosis Property Fund	95	5
Resilient Reit	54	46
SA Corporate Real Estate Fund	95	5
Sirius Real Estate	0	100
Vukile Property Fund	76	24

Source: Anchor Stockbrokers

The 22 properties are spread across key industrial and transport hubs in Europe including Berlin in Germany, Lyon in France, Rotterdam in the Netherlands and Warsaw in Poland. Some of the properties have been acquired from, among others, leading French developer Prologis and German real estate fund Spezialfonds.

Riley noted that the European deal is a move away from the company's usual strategy, which is to stay on its own home turf. He said local property companies have been forced to look for expansion opportunities offshore, given SA's low-growth environment.

"SA has had 10 years of very subdued growth across all property sectors. So the European deal will support dividend growth while the SA property portfolio is under pressure."

Riley added that the deal can be funded at attractive funding costs below acquisition yields, which makes it accretive from the outset.

"The timing of the deal was also attractive given recent rand strength," he said.

Investec Property Fund now has an equal exposure valued around R1.1bn to each of Europe and Australia (through sister company Investec Australia Property Fund).

Riley has already allocated another €75m (R1.1bn) to grow the company's European logistics portfolio over the next two to three years.

"We are well on our way to grow our offshore portfolio from the current 11% to 20% of total assets." x