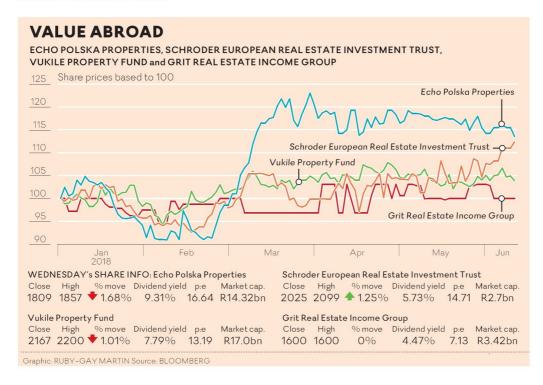
Publication BUSINESS DAY Page 1.13 Thurs 14 June 2018 AVE (ZAR) 23133.81



SOUTH AFRICAN FUNDS



Need for caution when picking property stock

Alistair Anderson

Property Writer

Fund managers are becoming increasingly circumspect when it comes to stock picking as South African property groups continue to buy real estate offshore despite perceived risks in Europe and the UK.

Nearly 40% of the South African listed property sector is exposed to commercial real estate outside of SA and this is not likely to be reduced in the near future.

"You need to pick stock by stock nowadays when you invest in property. The idea that you'll be okay if you buy the FTSE-JSE South African listed property index (Sapy) on its own is gone. Many of the funds on the JSE are investing abroad but in different countries, often those in Europe, and when you buy the Sapy, you buy exposure to numerous markets.

"So it's becoming more important to research firms

more deeply before giving them your money," Ivy Asset Management director Chris Segar said.

He said fund managers appreciated why so many property investors were looking offshore for opportunities given prolonged uncertainty around political policy in SA and also its sluggish economy.

Only South African funds that had strong niche offerings tended to stand out in SA.

"We understand that real estate in SA is essentially a consumer-driven industry. If the consumer is weak, real estate suffers. We've seen the economy shrink 2.2% in the first quarter of 2018, which has been a sign of a consumer under pressure, so this has not done anything to shift our preference away from offshore property."

The rand had remained volatile and had struggled to hold on to gains since as far back as Nenegate at the end of 2015, said Segar. His team had largely invested in offshore property

groups in large stable markets that included Germany and Poland. The group was also considering the UK, which had some specialised companies that were set to benefit from technological changes happening in retail, such as Stenprop.

Evan Robins of Old Mutual Investment Group said many fund managers had already allocated set amounts for investments in large stable South African real estate groups like Redefine and Growthpoint and they were unlikely to extend their exposure to these stocks while local property fundamentals were so weak.

Laurence Rapp, CEO of Vukile Property Fund, which recently invested €400m in Spain, said there were political and economic risks in Europe but these were manageable.

"We have found that Spanish business continues to thrive as the economy recovers regardless of political uncertainty."

andersona@businesslive.co.za