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A LOOK AT LOCAL LISTED PROPERTY

In 2017, after an almost decade-long boom, the local listed property sector abruptly swung into a 3-year decline. Underperformance, due to a 20% appreciation in the Rand (on an index generating almost 40% of its income abroad), was followed by reports of share manipulation and misleading statements by the Resilient stable, which comprised nearly 40% of the index, resulting in share prices falling up to 65%. Shortly thereafter, we experienced the COVID pandemic. The index fell 55% amid lockdowns, work-from-home policies, and low levels of landlord pricing power.

While the index staged a reasonable recovery after restrictions were lifted in 2021, the sector underwent a significant restructuring. Furthermore, with property being a debt-heavy asset, sentiment remained relatively cautious amid the rising interest rates environment of 2022 and 2023. Over the last year, however, listed property has delivered a return of more than 50%, leaving investors questioning their exposure or lack thereof.

While recent performance has been driven primarily by a very low base, better sentiment amid political reforms and better growth prospects and, of course, the anticipated start of the rate-cutting cycle, the sector is also showing favourable valuations and improving fundamentals.

From a valuation perspective, the sector is still trading at a discount of between 20% and 30% to net asset value, well below long-term averages. We have also seen an improvement in rental reversions, especially in retail, and vacancy levels - including office space. Furthermore, company loan-to-value ratios have fallen from peak levels and will benefit from lower cost of borrowing as rates decline.

While some caution remains on the durability of the recovery, the property sector seems to be working through its challenges. Improving fundamentals and attractive valuations combined with diversification benefits and characteristics of both income and growth make listed property worthy of consideration.

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