

Property seen maintaining its lead on JSE

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The party may not be over for South African listed property, with prominent fund managers expecting the sector to remain resilient and even deliver double-digit total returns this year.



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Listed property achieved a 10.2% total return in 2016, strongly outperforming the JSE all share index's 2.6%. It was, however, beaten by the 14% total return delivered by bonds.

The head of listed property funds at Stanlib, Keillen Ndlovu, said he and his team expected the sector to achieve a total return of 8.1% in a base scenario this year, 14% in a bull scenario and 2.7% in a bear scenario.

Meago Asset Managers director Jay Padayatchi agreed that listed property should perform well this year but warned of potential hurdles.

"I believe that this year will undoubtedly be another volatile year, given global macroeconomic risks. Further, SA faces a significant amount of event-driven risk including potential Cabinet reshuffles, the ANC elective conference and potential ratings downgrades looming large as GDP growth again becomes an issue," he said.

These global and local risks would influence the government bond outlook, which historically had been a significant

determinant in the capital performance of listed property, Padayatchi noted.

"On the other hand, the other component of listed property's total return is the income. With a relatively certain forward yield for the sector of over 7%, and given the vagaries facing global returns across asset classes, I'd have to say that is an attractive cushion to the total returns we will see come the end of the year," he said.

"Consequently, a total return for the sector of 8% worst-case scenario, base case of 11% and 14% best case, provided we don't see a fallout in long bond yields," said Padayatchi.

Stanlib's head of equities, Herman van Velze, said the performance of equities was expected to improve markedly this year even if they did not deliver an overall average double-digit return.

"SA equity return can largely be derived by separating the JSE into the following three components: offshore listed companies such as BTI [British American Tobacco], Richemont and SA equities that derive their primary earnings from abroad such as Naspers; SA domestic companies which are mainly industrial and financial shares; and resource companies," he said.

"This year, we expect a modest currency impact and marginally improved global growth that has largely been priced in, with decent returns from resources and selected SA shares. This brings us to forecast a substantial positive return although it would be a tall order to exceed 10%. We are in the camp of 8-10% overall."

The chief investment officer of Bridge Fund Managers, Ian Anderson, believed domestically focused property companies had the potential to deliver double-digit returns in 2017.

Source: Business Day

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