

Property 'stock vetting vital'

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Listed property investors will be better served picking individual stocks with sound fundamentals over the long term, despite the persistent volatility in capital markets, Catalyst Fund Managers have said.



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South African listed property stocks with offshore assets such as Capital & Counties, Intu Properties and Echo Polska Properties, which were considered to be rand-hedge stocks, had rallied following the downgrading of SA's debt by Standard and Poor's (S&P), while South African-focused counters had been sold off, the group said.

"We believe in the long-term, outperformance will be driven by the selection of stocks exhibiting solid property fundamentals. Therefore the decision to select offshore stocks will be driven by a combination of solid property fundamentals, management teams and the need to diversify the portfolios," Catalyst said.

Catalyst's monthly report released on Monday, 10 April, showed that the South African Listed Property index (Sapy) recorded a total rand return of 0.11% for March with the historic yield of the Sapy ending the month at 6.69%, 10 basis points higher than the 6.59% recorded the previous month.

The yield-to-maturity on the long-term government bond (R186) weakened by 16 basis points to end the month at 8.88%. Historically, the performance of listed property has tracked that of bonds, as they are both income-producing instruments.

This correlation has started to lessen, partly because South African-listed property counters have amassed offshore exposure over the past few years. The main drivers of the Sapy's weak returns in March were political and currency volatility.

"Following the announcement by President Jacob Zuma of the reshuffling of cabinet ministers including the removal of the highly respected minister of finance and his deputy, Pravin Gordhan and Mcebisi Jonas respectively, the rand was the major release valve for the volatility," Paul Duncan, a Catalyst investment manager said.

"The rating agency S&P subsequently downgraded the country's foreign-currency sovereign credit rating to subinvestment grade citing numerous concerns, including the cabinet reshuffle. Fitch Ratings followed suit on Friday, by downgrading the local and foreign-currency sovereign credit rating to BB+, subinvestment grade," he said.

The best-performing listed real-estate market was Hong Kong, which recorded a total dollar return of 1.83%, while the US recorded a negative total return of 2.96% for March, the lowest of all the regions measured by the report.

Keillen Ndlovu, Stanlib listed property funds head, said investors had to "stay in listed property for the long haul".

"We encourage investors to ride through the volatility and take a long-term view. Up to the end of last week, the South African listed property sector was down 1% year-to-date. Equities were the best performer with 5.5% returns, followed by cash and bonds at about 2% each," he said.

"At some point [in 2017] the South African listed property sector was up almost 6%."

Source: Business Day

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